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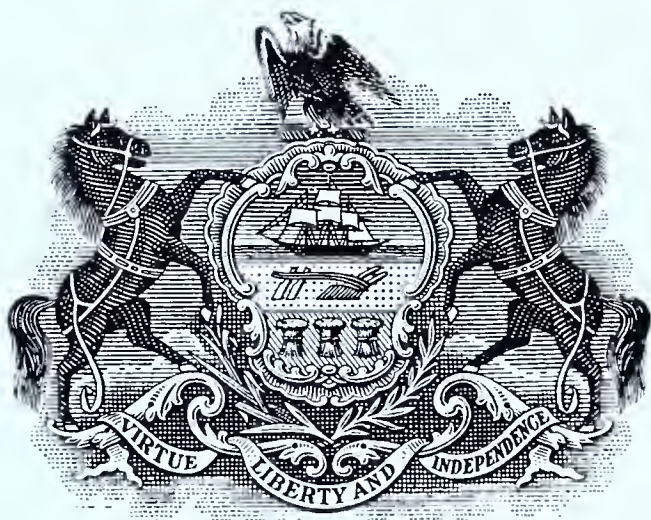
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# *Commonwealth of Pennsylvania*



## THE GOVERNOR'S COMMISSION FOR MODERN STATE GOVERNMENT "LITTLE HOOVER COMMITTEE"

*January, 1970*





# THE GOVERNOR'S COMMISSION FOR MODERN STATE GOVERNMENT

(LITTLE HOOVER COMMITTEE)

## FINAL REPORT

January, 1970

# THE GOVERNOR'S COMMISSION FOR MODERN STATE GOVERNMENT

## (LITTLE HOOVER COMMITTEE)

### COMMISSION MEMBERS

Hon. Robert E. Woodside, *Co-Chairman*

Hon. John S. Rice, *Co-Chairman*

Robert G. Bartlett

Charles S. Bowden

Martin H. Brackbill

Rep. Alvin C. Bush

Dr. John H. Ferguson

John W. Ingram

Sen. William J. Lane

Larry D. Martin

David O. Maxwell

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R. Wayne Oates

Henry A. Quinn

Rep. H. Jack Seltzer

Dr. Donald C. Stone

Dr. Albert C. VanDusen

Sen. George N. Wade

Rep. John T. Walsh

Sen. John H. Ware

William G. Willis

Joseph J. McHugh, *Executive Director*

COMMONWEALTH OF PENNSYLVANIA



THE GOVERNOR'S COMMISSION FOR MODERN STATE GOVERNMENT  
"LITTLE HOOVER COMMITTEE"

ROOM 14, OLD MUSEUM BUILDING, P. O. BOX 1323, HARRISBURG, PENNSYLVANIA — PHONE: (717) 787-7821 or 7822

RAYMOND P. SHAFER  
Governor

HON. ROBERT E. WOODSIDE  
Co-Chairman

HON. JOHN S. RICE  
Co-Chairman

JOSEPH J. McHUGH  
Executive Director

January, 1970

Honorable Raymond P. Shafer  
Governor of Pennsylvania  
Harrisburg, Pennsylvania

Dear Governor Shafer:

The Governor's Commission for Modern State Government, the "Little Hoover Committee," presents herewith its report on its findings and recommendations.

We believe the changes recommended in this report are in accord with good business practices. The implementation of these recommendations will be of great benefit to the citizens of the Commonwealth. The members of the Little Hoover Committee join us in urging you to appoint a person to personally represent you in carrying on the work necessary in implementing the changes recommended.

All the members of the Committee deem it a privilege to have participated in this effort and want to assure you that we will assist, in any way possible, the person you designate to put into effect the recommendations contained in this report.

Respectfully,

*Robert E. Woodside*  
— Chairman

*John S. Rice*  
— Chairman

MEMBERS

HON. ROBERT BARTLETT  
MR. CHARLES S. BOWDEN  
MR. MARTIN H. BRACKBILL  
HON. ALVIN C. BUSH  
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## Foreword

The establishment by Governor Raymond P. Shafer of The Governor's Commission for Modern State Government was in keeping with similar actions by other governors before him. Preceding committees included the State Government Survey Committee, Francis J. Chesterman, Chairman, which submitted its report February 11, 1953; Governor's Advisory Committee, Dr. Stephen B. Sweeney, Chairman, appointed by Governor-elect George M. Leader in December, 1954, and the Commission on Governmental Reorganization, Anthony J. Drexel Biddle, Chairman, which reported March 11, 1957.

The members of The Governor's Commission for Modern State Government were named by Governor Shafer in August, 1967. The bipartisan selections were made from the business community, the academic world and the government. The co-chairmen are Robert E. Woodside, a former Superior Court Judge, former State Attorney General, and former legislator, and former United States Ambassador to the Netherlands John S. Rice. Colonel Rice also served at various times as Secretary of Property and Supplies, Secretary of the Commonwealth and State Chairman of the Democratic Party.

The members appointed were Hon. Robert G. Bartlett, Secretary of Highways; Charles S. Bowden, retired president of the Pennsylvania Power Company; Martin H. Brackbill, former Budget Secretary and former Deputy Auditor General; Representative Alvin C. Bush, Republican Caucus Secretary; Dr. John H. Ferguson, formerly of The Pennsylvania State University and one-time Secretary of Administration; John W. Ingram, Director of the Pennsylvania Economy League's State Division and also a former Secretary of Administration; Senator William J. Lane, Minority Whip; Robert L. Leonard, Partner, Peat, Marwick, Mitchell & Company; Larry D. Martin, Editor and Publisher of The Johnstown Observer; Thomas B. McCabe, Jr., Vice President, Scott Paper Company; Dr. Robert J. Mowitz, Director, Institute of Public Administration, The Pennsylvania State University; R. Wayne Oates, Comptroller, PPG Industries; Hon. Arthur F. Sampson, Budget Secretary and Secretary of Administration and former Deputy Secretary of

Property and Supplies; Representative H. Jack Seltzer, Chairman, Minority Appropriations Committee; Dr. Donald C. Stone, Dean Emeritus, Graduate School of Public and International Affairs, University of Pittsburgh; Dr. Albert C. VanDusen, Vice-Chancellor, University of Pittsburgh; Senator George N. Wade, Chairman, Appropriations Committee; Representative John T. Walsh; Senator John H. Ware, Republican Caucus Chairman, and William G. Willis, Vice President and Secretary of Temple University.

During the course of the Commission's study, Henry A. Quinn, Partner, Peat, Marwick, Mitchell & Company, was appointed to replace Mr. Leonard who passed away December 13, 1968, and David O. Maxwell, Budget Secretary and Secretary of Administration was appointed in place of Mr. Sampson who resigned to accept a position with the Federal government.

On April 25, 1968 the Committee appointed Joseph J. McHugh as Executive Director. Mr. McHugh had been Director of Governor's Budget Bureau for a number of years, and served as Acting Budget Secretary during the final months of the Scranton Administration.

The press dubbed the Commission as the "Little Hoover Committee" and it became known and is generally referred to by this name.

The Governor, at the first meeting of the Committee on October 30, 1967, charged its members to "help my administration economize, streamline and modernize so the people of Pennsylvania get every penny's worth out of every tax dollar that goes into making government work."

On March 14, 1968, Governor Shafer announced the signing of Act No. 51-A appropriating \$75,000 for payment of all necessary expenses of the Little Hoover Committee and referred to the two major objectives of the Committee as (1) To review the efficiency of each Commonwealth program; (2) To examine the State's personnel policies and Civil Service Commission to suggest a method of attracting such quality personnel that services can be rendered without a constantly expanding complement.

Since the Governor had appointed a Priority Commission and also had announced that his administration was working on a reorganization plan for the Executive Branch, Co-Chairman Woodside asked for a clarification of the responsibilities of the Little Hoover Committee. The Governor answered Judge Woodside April 1, 1968, by letter:



“Dear Bob:

I am happy to see that the Little Hoover Commission is now adequately financed and prepared to begin the work for which it was formed.

Your question concerning the jurisdiction of the Little Hoover Commission and the defining of responsibilities between your Committee, the Priority Commission, and our reorganization effort, is certainly pertinent at this time, and I shall outline the divisions of responsibility as I see them.

The Priorities Commission has a threefold responsibility:

1. It will identify the goals and objectives of State Government.
2. It will develop criteria for allocating our financial resources among these goals and objectives.
3. It will propose a specific allocation of funds for the 1969-70 budget.

The objectives of reorganization are reduction of the number of units reporting to the Governor by grouping similar functions within the same agency; improving the Governor's ability to coordinate programs and enforce policy decisions; and the establishment of clear, direct, and manageable lines of responsibility and communication.

In my initial charge to the Little Hoover Commission, I purposely refrained from limiting the scope of your investigations so that you would be free to conduct a wide-ranging study of our operations and could, therefore, make recommendations in any area which would result in economies or increased efficiency in the operation of the State Government.

In view of the activities of the other groups outlined above, I would suggest that it might be appropriate for you to direct your primary efforts at the means which we use in achieving our program objectives.

This would lead you into such areas as our use of modern EDP equipment, recruiting and training activities, the possibility of further centralizing automotive, clerical, photographic, reproduction, mail services, and the potential for improving central staff services. We would also appreciate your appraisal of the adequacy of management tools now available to department heads and middle management within departments as well as your thoughts on how we might improve the quality of employees which State Government attracts, especially at the middle and upper management levels.

While your primary emphasis might be on means or methods of operation, we would expect that in the course of your investigations you might also develop opinions concerning our objectives, the emphasis which we place on given objectives, and the manner in which we are organized to carry out these objectives.

I am certain that those working on these subjects would be happy to consider your recommendations in these areas, just as they may well have suggestions concerning methods, which I am sure you would consider in your deliberations. Thus while you might devote your primary efforts to methods, you are by no means restricted to this area.

I trust that this will adequately answer your question concerning the scope of your activity. If further clarification is needed, I am certain that Secretary Sampson will be happy to supply additional information.

Sincerely,

RAYMOND P. SHAFER"

Subsequently, in accordance with the Governor's suggestions, the Committee agreed to focus its attention upon several areas for study selected on the basis of potential opportunities for practicable improvement and economies, and to organize into task forces to study each subject area. Four subjects were approved, and four task forces were appointed, each made up of several members. The task forces were au-

thorized to solicit through the Governor, the technical assistance of volunteer consultants loaned by business firms and academic institutions. The name of each task force, its scope and the Committee members assigned thereto, and the names of the consultants who assisted each task force are as follows:

## PROCUREMENT

### *Scope:*

Study all State purchasing and leasing practices as to standards, specifications and inspection, contracts, regional purchasing and warehousing, inventory control, methods to prevent purchase of luxury items, and systems improvement to bring about greater participation of business firms in bidding for State business.

### *Members:*

Thomas B. McCabe, Jr., Chairman; Senator William J. Lane; Robert L. Leonard (replaced by Henry A. Quinn); Larry D. Martin.

### *Consultants:*

E. F. Andrews, Allegheny Ludlum Steel Corporation; R. William Banks, Philadelphia Gas Works; Paul C. Beacher, TRW, Inc., Teunis J. Bergen, RCA Corporation; John E. Brane, Vertol Division, The Boeing Company; Charles D. Glinsky, Philco-Ford Corporation; Earl Goodwin, Westinghouse Electric Corporation; Charles Heisler, Scott Paper Company; Adam Horn, General Telephone Company of Pennsylvania; Glenn C. Mills, Vertol Division, The Boeing Company; Harold F. Newman, Allegheny Ludlum Steel Corporation; Robert G. Owens, Hershey Foods Corporation; Robert M. Schaper, Gulf Oil Corporation; Joseph G. Smith, Wheeling-Pittsburgh Steel Corporation; A. E. Urich, Gulf Oil Corporation; Dale Weisenstein, Westinghouse Electric Corporation.

## PERSONNEL MANAGEMENT

### *Scope:*

Study all aspects of personnel management including civil service, recruitment, testing, veterans' preference, employee morale, incentive plans, salary scales, minimum qualifications, classification, fringe benefits, training, turnover, contracted consultants services, etc.

*Members:*

Robert G. Bartlett, Chairman; Dr. Robert J. Mowitz; Dr. Donald C. Stone; Representative John T. Walsh; Senator John H. Ware.

*Consultants:*

Lewis J. Bibri, Armstrong Cork Company; Benjamin D. Boylston, Bethlehem Steel Corporation; Donald S. Karl, Bell Telephone Co. of Pa.; William O. Lory, Alcoa.

## ADMINISTRATIVE SERVICES

*Scope:*

Study all phases of office services including printing and duplicating facilities, communications, transportation, automatic data processing, property inventory, Commonwealth insurance practices including State Insurance Fund, space utilization, records management, financial management, capitol buildings maintenance and services, institutional management and processing of vendor and contractor payments.

*Members:*

Dr. John H. Ferguson, Chairman; Charles S. Bowden; Representative Alvin C. Bush; R. Wayne Oates; Dr. Albert C. VanDusen.

*Consultants:*

William C. Austin, Atlantic-Richfield Company; Robert Cheek, Westinghouse Electric Corporation; J. Raymond Fleming, Jones & Laughlin Steel Corporation; Joseph J. Gibbons, Blaw-Knox Company; J. J. Paulos, Jones & Laughlin Steel Corporation; P. L. Reinhard, Alcoa; Dr. Howard M. Teaf, Jr., Haverford College; Harold F. vanGorder, U. S. Steel.

## CAPITAL EXPENDITURES AND PUBLIC WORKS

*Scope:*

Study of planning, approval, financing and construction procedures for Commonwealth owned or financed capital improvements, including processes of long range planning, budgeting, initiation, design and construction, together with allocation of responsibilities among Commonwealth agencies for those functions.

*Members:*

John W. Ingram, Chairman; Martin H. Brackbill; Representative H. Jack Seltzer; Senator George N. Wade; William G. Willis.

Each task force selected certain specific subject areas within its scope for study and reported to the Committee monthly as to its progress. As each of the task forces concluded its work, its chairman presented its report to the Committee for review, discussion and approval. The reports as approved were presented individually to Governor Shafer:

- I Procurement
- II Personnel Management
- III Administrative Services
- IV Capital Expenditures and Public Works

In this report the four individual reports are combined.

The thanks of the members of the Committee and of all Pennsylvanians are due the expert consultants who performed extremely valuable services for the Committee. Thanks are also due to the employers of the consultants who made no charge either for their services or expenses.



# I PROCUREMENT

## PROCUREMENT TASK FORCE MEMBERS

Thomas B. McCabe, Jr., *Chairman*

Sen. William J. Lane  
Larry D. Martin

Henry A. Quinn

## CONSULTANTS

E. F. Andrews  
Allegheny Ludlum Steel Corp.

R. William Banks  
Philadelphia Gas Works

Paul C. Beacher  
TRW, Inc.

Teunis J. Bergen  
RCA Corporation

John E. Brane  
Vertol Div., The Boeing Co.

Charles D. Glinsky  
Philco-Ford Corp.

Earl Goodwin  
Westinghouse Electric Corp.

Charles Heisler  
Scott Paper Company

Adam Horn  
General Telephone Co. of  
Pennsylvania

Glenn C. Mills  
Vertol Div., The Boeing Co.

Harold J. Newman  
Allegheny Ludlum Steel Corp.

Robert G. Owens  
Hershey Foods Corporation

Robert M. Schaper  
Gulf Oil Corporation

Joseph G. Smith  
Wheeling-Pittsburgh Steel Corp.

A. E. Urich  
Gulf Oil Corporation

Dale Weisenstein  
Westinghouse Electric Corp.



# The Recommendations

## OVERALL STATE PROCUREMENT

1. It is our recommendation that the Secretary of the Department of Property and Supplies be charged with the responsibility of coordinating all Commonwealth procurement activities covering material, services, pricing, scheduling, long-term planning and methods. To accomplish this, the Department must be reorganized to upgrade the responsibility and authority for all State procurement.

## OVERALL STATE PROCEDURES

2. Summarize all laws and regulations pertaining to procurement into one all-inclusive document. Assign the Department of Property and Supplies, within the scope of these existing laws, the responsibility of developing detailed, understandable procedures. These procedures should reflect all of the required interfaces and be in sufficient detail that all personnel involved in requisition writing and buying would understand the system and be able to adequately perform their assigned functions as directed by procedure. Make these formal procurement procedures applicable to all departments, agencies, commissions, and independent authorities within the Commonwealth.

## AUDITS—FOR COMPLIANCE WITH OVERALL STATE POLICY AND PROCEDURES

3. When the procurement policies and formal detail procedures are approved and published, periodic audits on a sampling basis should be performed for compliance to the policies and procedures with the cycle being complete at least once yearly if feasible. The sampling basis can assure compliance at lowest cost.

## COMPETITIVE BIDDING

4. Greater reliance should be placed on buyer judgment and negotiated price. Implementation of this recommendation will require (a) new legislation or a more liberal interpretation of the current law, (b) retraining, and (c) careful study of commodity groupings in order to develop an orderly selective approach.

## BLANKET ORDERS

5. Establish annual blanket purchase orders on all commodities used from year-to-year throughout the Commonwealth. Require by procedure that using agencies take advantage of blanket orders. Reduce the paperwork and approval levels required.

## SMALL VALUE PURCHASE ORDER

6. Review the procedures establishing the monetary limitations on small purchases and implement a cost effectiveness study to evaluate the feasibility of the following:
  - A. A record system to advise how much State money is being spent on small purchases and to what suppliers. This could be tied into the mechanized programming of the Bidders' List.
  - B. Analyze the accumulated data and establish authority for placing purchase orders for higher dollar amounts without such stringent approval levels and number of bidders required.
  - C. Develop a simplified purchase order or cash voucher system for small dollar requirements to be used throughout the Commonwealth.
  - D. Streamline the inspection system on low value orders.
  - E. Stipulate that only approved bidders may furnish low value items.

## SURETY BONDS

7. The use of surety bonds should be discontinued. Proper maintenance of the source selection process reconfirmed on a yearly basis will meet today's business requirements for qualified suppliers.

## PAYMENT TO SUPPLIERS

8. Establish systems and procedures for the prompt payment of invoices. Consideration should be given to immediate payment upon receipt of the invoice to take advantage of all benefits that could derive therefrom.

## "STATE OF THE ART" PROCUREMENT

9. The Commonwealth should adopt techniques to increase effectiveness.
  - A. A Value Analysis group should be established within the Department of Property and Supplies to review standards and identify other areas of procurement, such as the Receiving and Inspection recommendation, in which value analysis could be utilized to implement appropriate methods and procedures to modernize the procurement activity.
  - B. The State must develop a sufficient cost collection reporting system to show where the tax dollars are being spent, by whom, to whom, and how much. This is mandatory to provide guidance for further modification and improvements.

- C. The State should establish a traffic function which would control all elements of moving material.
- D. Updating Purchasing System—A review should be made of states known to have a good purchasing system. However, since public bodies do not show profit to exist, we feel very strongly that it would be meaningful if highly competitive industrial purchasing systems were reviewed. Firsthand observations could be made of the many new techniques to increase efficiency, eliminate redundancy, and control costs. When studying other states' systems, it might be pertinent to find out how they sell legislative and departmental reform, the pitfalls, and what recommendations they might have to circumvent human resistance to change.

## STATE IMAGE

- 10. Pennsylvania must improve its image and provide qualified suppliers with the incentive to do business with the State. The first steps must be the elimination of surety bonds and streamlining the payment of invoices as recommended earlier. Priority should be given to the development of realistic standards and the discontinuance of "equal to" on bids.

## SUPPLIERS OF STATE'S REQUIREMENTS

- 11. The Bidders' List should be purged to create an up-to-date file of qualified, financially responsible and reliable suppliers. It might be well to change the *Application for Admission to Bidders' List* to *Source Evaluation Sheet*. A yearly statement regarding financial status and current brochures of product lines and manufacturing capability should be required from the active list of potential suppliers. A program directed at soliciting qualified sources should be implemented. Requisitioners and buyers must be provided with this list of qualified suppliers, and required to use these sources. Catalogs and brochures should be made available to all requisitioning agencies in order that they may properly evaluate from the various suppliers' catalogs the commodity they want to procure. A current up-to-date source file with only qualified, financially capable and reliable suppliers will substantiate recommendations.

## BUDGET CONTROL AND COMMITMENTS

- 12. A method of control should be established so that once proper budget approval has taken place, it remains as a good allocation of funds until the contract is either consummated or can be placed within the funding allocated.

## RECEIVING AND INSPECTION

13. Review completely current methods and establish systems and procedures to receive and inspect material promptly. Emphasis should be placed on supplier performance, statistical sampling methods, and the test procedures used on all commodities.

## WAREHOUSING

14. Establish a warehouse system to utilize the warehousing operation in conjunction with annual procurement on high-use items that suppliers do not have on the shelf commercially at competitive prices. A system of withdrawal requisitions for accounting purposes should be used in lieu of formal purchase orders. Stock levels should be established based on usage and taken into consideration in the yearly budget approvals. Apparent plans to expand the warehousing program should be implemented. Procedures should be fully developed requiring agencies to use the warehouse system. The warehouse system should not be a sales organization, but utilized to store high-usage items which were procured on an annual basis for price benefit.

## PROPERTY CONTROL

15. Procedures should be developed to cover all departments, agencies, commissions, and independent authorities within the Commonwealth in the accountability of property and the inventory management system required to determine the total assets of the Commonwealth.

## SURPLUS PROPERTY

16. The Surplus Property Division should control all Statewide surplus property disposal. Procedures should be developed to cover all departments, agencies, commissions, and independent authorities within the Commonwealth concerning methods for declaring an item surplus, how it will be disposed of, and where. The system should provide for on-site disposal and must call for a central record that shows the "how, why, what, and where" of every disposition. To induce all departments and agencies to utilize the services of the Surplus Property Division, a system should be established returning the funds realized through surplus action to the budget of the agency which had the surplus item. This recommendation should be coordinated with the recommendations on Property Control.

## EMPLOYEE EDUCATION

17. The Commonwealth should undertake a continuing training program for personnel charged with responsibility of requisitioning material and services. The implementation of our recommendations in placing many procurement positions under Civil Service should upgrade the job descriptions and increase awareness of procurement practices.

## PROCUREMENT PERSONNEL

18. It is recommended that job descriptions be prepared stating the required qualifications and education necessary to perform the function. Work standards should be established to measure performance against the standard. Records should be kept which will allow management to plan the work load and manpower requirements. Particular attention should be given to the establishment of a true buying function and not an order clerk. Attempts should be made to recruit recent college graduates into procurement for the purpose of upgrading the buying organizations and providing a better balance in age levels.

Personnel performing the physical buying of materials should be under Civil Service. Procedures outlined in the *Administrative Manual*, Item 0100, Personnel Policy and Procedures, governing personnel in the Department of Property and Supplies, do not supersede the policies of the Civil Service Commission or the Governor's Office.

## CIVIL SERVICE

19. The Committee feels it would be highly desirable in many areas, such as the Surplus Property Division, Leasing, Bureau of Standards, and the Bureau of Purchases, to remove positions up to and including the Deputy Director of Procurement from the political arena and put them under Civil Service.

## BUREAU OF STANDARDS

20. Further study of the Bureau should be made in conjunction with our recommendation No. 8, Payment to Suppliers; No. 13, Receiving and Inspection; and No. 9. Establishment of a Value Analysis Group is essential to improve the operation of this organization.

## BOARD OF COMMISSIONERS OF PUBLIC GROUNDS AND BUILDINGS

21. The Board of Commissioners of Public Grounds and Buildings should be removed from the procurement cycle. We can see no logical reason for this step in the procurement process.

## THE AUTOMOTIVE BUREAU

22. Our chief recommendation in this area would be changes to allow open-end bidding and to allow local governments to make purchases on State open-end contracts.

## THE BUREAU OF PUBLICATIONS

23. Further study of the Bureau of Publications should be made. Very likely most of its problems can be corrected by the implementation of recommendations made earlier in this report.

## STATE LEASING PRACTICES

24. Additional study of State leasing practices should be made to determine the effect of equipment leasing not being under the control of the Department of Property and Supplies. Also a standard lease form should be developed. The implementation of our recommendation to establish the Department of Property and Supplies as the responsible organization for the State's overall procurement should improve long-term planning.

## GENERAL STATE AUTHORITY

25. The original need for this Authority has disappeared and we recommend the General State Authority be dissolved.

## LOCAL GOVERNMENT/STATE PROCUREMENT

26. It is our conception that the Department of Property and Supplies should be responsible for fully informing other government entities within the State re Commonwealth contract purchasing arrangements so that these groups can take advantage of the State procurement effort which should result in lowering costs for all parties concerned. Also, we would suggest that the State's total procurement effort and the procurement efforts of municipal, county, and local governments should be governed by the new recommended State systems and procedures and should be under continuous scrutiny by the Governor's office, and legislation should be enacted to encourage the Governor to do this. It should be recognized that a substantial percentage of municipal, county, and local governmental purchasing is paid for through State taxes, the revenue from which has been allocated to these governments by the State. (Refer to recommendation under Item 22, The Automotive Bureau.)



# The Problem

It is natural for a group of purchasing executives from industry, where purchasing has advanced in the last fifteen or twenty years from a severely limited clerical operation to a recognized profit-oriented function where initiative and negotiating skills can bring great financial benefits to a company, to be shocked by their first exposure to the fishbowl atmosphere: the great emphasis on avoiding fraud, collusion or favoritism; the excessive reliance on the competitive bid; the red tape—in short, the basic government check and balance characteristics of public buying.

The failure of public purchasing officials in many instances to implement the use of up-to-date, sophisticated, industrial purchasing and materials concepts, is usually not due to lack of ability or experience, but to the environment in which the officials operate and the existence of outdated procurement legislation. The environment problem centers on the desire to avoid any possibility of a politically inspired investigation or examination. The people directing public purchasing are inclined to over-react to this constant possibility and follow the philosophy—"when in doubt, don't use judgment; just follow the rules and stay out of trouble." With the law stressing and forcing outmoded competitive bidding as the cure-all for government procurement, we find public purchasing procedures severely hampered.

Consequently, one of the prime targets of this study was to determine efficiencies which we feel can be achieved within a framework of checks and balances consistent with modern business practices and current State needs.

The laws, regulations, and manuals governing purchasing in general are The Administrative Code of 1929, The Appropriation Acts, The Field Purchasing Manual and The Administration Manual, Item 0700.

As amended in 1968, Article III, Section 22 of the Constitution of Pennsylvania states:

The General Assembly shall maintain by law a system of competitive bidding under which all purchases of materials, printing, supplies, or other personal property used by the government of this Commonwealth, shall so far as practicable be made. The law shall provide that no officer or employe of the Commonwealth shall be in any way interested in any purchase made by the Commonwealth under contract or otherwise.

It apparently is hoped by the Department of Property and Supplies that all laws regarding purchasing will be repealed and replaced by a short, all-inclusive statute to permit the Secretary of Property and Supplies to issue, from time to time, regulations governing purchasing for all departments, agencies, commissions, and independent authorities which would become law. We have been advised by the Department of Property and Supplies that they are working with the Legislative Reference Bureau to recommend changes in the laws governing purchasing.

We agree with this approach, but since we have no idea whether or not the Legislature would be amenable to these changes, we have based our studies on the situation as it exists today. The statement in the Constitution of Pennsylvania that "the General Assembly shall maintain by law a system of competitive bidding . . . so far as practicable," gives use to the question of interpretation. A liberal interpretation would suggest many modern business practices could be developed within existing laws.

Bearing these things in mind, it would still appear that the procurement operation in the State as performed by the Department of Property and Supplies, other departments, agencies, commissions, and independent authorities, within the restrictions of the present laws and current practice, has room for considerable improvement in establishing a procurement policy that provides goods of the right quality where they are needed, when they are needed, and at the lowest ultimate cost. This policy implementation will do much to further State efficiency and image.

The dollar expenditures involved are vast—and so are the savings that could result from improved procedures and practices.

All expenditures made through the Department of Property and Supplies for goods, services, and construction are estimated for the present fiscal year at \$388,131,000 (Source: Budget Bureau, Governor's Office.)

All State agency expenditures, including authorities and Turnpike Commission, for goods, services, and construction were \$1,453,472,000 in the 1967 fiscal year. (Source: U. S. Bureau of Census, State Government Finance.)

All Pennsylvania State and political sub-division expenditures for goods, services, and construction in fiscal year 1967 were \$2,030,754,000. (Source: U. S. Bureau of Census, Government Finance.)



# Approaches and Recommendations

## OVERALL STATE PROCUREMENT

Purchasing is performed by the Department of Property and Supplies, as well as many other departments, agencies, commissions, and independent authorities, such as the Highway Department, Game Commission and General State Authority, scattered throughout the State. The absence of control and coordination of these efforts result in needless duplication and failure to achieve the modern business practices of mass buying, development of buying expertise and sound business controls.

- 1. It is our recommendation that the Secretary of the Department of Property and Supplies be charged with the responsibility of coordinating all Commonwealth procurement activities covering material, services, pricing, scheduling, long-term planning and methods. To accomplish this, the Department must be reorganized to upgrade the responsibility and authority for all State procurement.*

## OVERALL STATE PROCEDURES

The Administrative Code of 1929, The Fiscal Code, the several appropriation acts and the various purchasing manuals apparently constitute the procedural guidelines. The Field Purchasing Manual does not cover the State procurement policy, nor does it state what the buyer's objectives should be regarding procurement. The manual is broad in scope and it references other media of control which are not included in the manual. The manual lacks detail—it could not be handed to a new man as a guide to procure and expect him to function and conduct the interface requirements necessary to consummate even a simple buy.

The technical portion of the purchasing is actually accomplished by a large number of people in various departments and agencies scattered throughout the State (these are the many people that originate the requirement and write the purchase requisition which includes the specification and the estimated cost—the latter two elements are normally accomplished by contacting a supplier of the type of article to be procured) and there is undoubtedly a large turnover of the requisition writers within the State government since those qualified, according to the manual, are many fold.

2. *Summarize all laws and regulations pertaining to procurement into one all-inclusive document. Assign the Department of Property and Supplies, within the scope of these existing laws, the responsibility of developing detailed, understandable procedures. These procedures should reflect all of the required interfaces and be in sufficient detail that all personnel involved in requisition writing and buying would understand the system and be able to adequately perform their assigned functions as directed by procedure. Make these formal procurement procedures applicable to all departments, agencies, commissions, and independent authorities within the Commonwealth.*

## AUDITS—FOR COMPLIANCE WITH OVERALL STATE POLICY AND PROCEDURES

The absence of detailed procedures and policy statements prevent any meaningful audit program. To the best of our knowledge, there is no planned audit cycle; and when audits are performed, it is on a time consuming 100 per cent basis.

3. *When the procurement policies and formal detail procedures are approved and published, periodic audits on a sampling basis should be performed for compliance to the policies and procedures with the cycle being complete at least once yearly if feasible. The sampling basis can assure compliance at lowest cost.*

## COMPETITIVE BIDDING

The procurement approach of the Commonwealth is based primarily on competitive bidding. Though the reason for this might have been sound in the past, the present and anticipated future in procurement indicates that competitive bidding should be less extensively used.

4. *Greater reliance should be placed on buyer judgment and negotiated price. Implementation of this recommendation will require (a) new legislation or a more liberal interpretation of the current law, (b) retraining, and (c) careful study of commodity groupings in order to develop an orderly selective approach.*

## BLANKET ORDERS

Blanket Orders or other terminology, such as Term or Schedule Orders, Supply Contracts, Requirements Contracts and Open-End Contracts, used to describe orders calling for quantities of parts and materials to cover a specified usage period and be received in smaller quantities, at various locations as usage dictates, are available on some commodities.

However, these very valuable procurement methods are far from being fully utilized. There is no requirement that procuring agencies must use them. The paper required to release against such orders authorizing the supplier to ship items is extremely bulky and time-consuming. It requires as much effort as actually issuing a new requirement and the resultant purchase order. Releases on blanket orders necessitates a requisition (purchase requisition) and the same approvals as on any new item.

6. *Establish annual blanket purchase orders on all commodities used from year-to-year throughout the Commonwealth. Require by procedure that using agencies take advantage of blanket orders. Reduce the paperwork and approval levels required. An apparent system that could be recommended to accomplish this would be the issuance of a blanket order listing the commodities individually priced which the using agencies may order as required during the year. The Comptroller would approve the basic blanket order, the ceiling price of which would represent the composite budgets of the using agencies. Accounting would show the total as committed dollars. A simplified one-page snap-out release form would be used by the using agencies to the supplier, to order the parts as required. Upon receipt of the order, the using agency would indicate acceptance and forward the accounting copy to the Bureau of Financial Management for debit against his account. This would eliminate the multitude of approvals required every time a field purchase order is issued.*

## SMALL VALUE PURCHASE ORDER

The administrative cost of processing a purchase order is proportionately higher for a small value order than it is for a high value order. In fact, this cost can exceed the value of the item being procured. The Director of the Bureau of Financial Management, Office of Administration, revealed that it costs the State \$30 to issue a purchase order. The current system of accounting dictates that a purchase order is required to spend any amount of money.

The Field Purchasing Manual, 3.02, "Use of Field Limited Purchase Orders" outlines the monetary levels, approvals and competition required for small purchases. Use of the system by other agencies is permissible, based on a written request and approval by the Secretary of Property and Supplies. Records are not kept on the total dollars spent in the various categories of purchase order amounts.

6. *Review the procedures establishing the monetary limitations on small purchases and implement a cost effectiveness study to evaluate the feasibility of the following:*

- A. A record system to advise how much State money is being spent on small purchases and to what suppliers. This could be tied into the mechanized programming of the Bidders' List.*
- B. Analyze the accumulated data and establish authority for placing purchase orders for higher dollar amounts without such stringent approval levels and number of bidders required.*
- C. Develop a simplified purchase order or cash voucher system for small dollar requirements to be used throughout the Commonwealth.*
- D. Streamline the inspection system on low value orders.*
- E. Stipulate that only approved bidders may furnish low value items.*

## SURETY BONDS

The State's practice of requiring security bonds of 10 percent to 25 percent with each bid is outdated and costly. The nuisance factor makes big business shy away and it is a hardship to small business, consequently competition is reduced. Money is an expensive commodity and the State is paying for it in prices paid. The cost to the State to administer this program is high.

7. *The use of surety bonds should be discontinued. Proper maintenance of the source selection process reconfirmed on a yearly basis will meet today's business requirements for qualified suppliers.*

## PAYMENT TO SUPPLIERS

The long delay in processing an invoice is of major concern to Commonwealth suppliers, and also a costly item to the State. The State's method of paying invoices on multi-item purchase orders only upon receipt of the last item, probably results in higher price and definitely results in lost discounts. The same is undoubtedly true of withholding payment pending proof of final acceptance.



8. *Establish systems and procedures for the prompt payment of invoices. Consideration should be given to immediate payment upon receipt of the invoice to take advantage of all benefits that could derive therefrom. Properly controlled sources will increase the confidence level of this process. In the event a supplier has to be debited back for rejected material, prompt processing of the refund of payment would be required or he would be removed from the approved source list. Suppliers should be paid promptly for items delivered and accepted, and not be penalized because of spread-out delivery requirements.*

## STATE OF THE ART PROCUREMENT

The Commonwealth does not show any aggressiveness in elevating the procurement activity above a routine clerical function, whereas many new techniques have been developed in industry to increase efficiency, eliminate redundancy and control cost.

9. *Establish and develop such techniques as Value Analysis—one of the most useful and recently developed methods for cost reduction utilized very effectively in many industries is Value Analysis. This highly sophisticated approach requires considerable flexibility with respect to competitive bidding procedures, particularly in the area of specifications. As of this moment, the State is making inadequate use of this concept. A Value Analysis group should be established within the Department of Property and Supplies to review standards and identify other areas of procurement, such as the Receiving and Inspection recommendation, in which value analysis could be utilized to implement appropriate methods and procedures to modernize the procurement activity.*

*Cost Collection System—Industry has substantial methods for collecting procurement expenditure data; whereas the State does not have sufficient information to see the total picture of where the tax dollar is being spent. The State must develop a sufficient cost collection reporting system to show where the tax dollars are being spent, by whom, to whom, and how much. This is mandatory to provide guidance for further modification and improvements.*

*Traffic Function—Another industry practice is to maintain a traffic function to control movement of material, freight charges, loss*

*or damaged property, and other elements. This control is lacking in the Commonwealth. The State should establish a traffic function which would control all elements of moving material.*

*Updating Purchasing System—A review should be made of states known to have good purchasing systems. However, since public bodies do not show profit to exist, we feel very strongly that it would be meaningful if highly competitive industrial purchasing systems were reviewed. Firsthand observations could be made of the many new techniques to increase efficiency, eliminate redundancy, and control costs. When studying other states' systems, it might be pertinent to find out how they sell legislative and departmental reform, the pitfalls, and what recommendations they might have to circumvent human resistance to change.*

## STATE IMAGE

In reviewing the State's procurement activity with suppliers, it became apparent the State has a poor reputation as a customer. There were several repetitive complaints noted, and it appears that the State is paying higher prices than necessary as a result of the poor image projected. Two of the problem areas described earlier in this report—surety bonds and slow payment of invoices—are major factors in lowering industry's opinion of the State. The use of "equal to" on bids and the absence of biddable standards also present large problems to suppliers wishing to do business with the State.

- 10. Pennsylvania must improve its image and provide qualified suppliers with the incentive to do business with the State. The first steps must be the elimination of surety bonds and streamlining the payment of invoices as recommended earlier. Priority should be given to the development of realistic standards and the discontinuance of "equal to" on bids. We also recommend the following excerpts, received from suppliers, be studied to identify and correct other areas that cause industry concern:*

*Buyers are not qualified to make a judgment "equal to" on complex items.*

*Bureau of Standards does not have people qualified to judge "equal to" on highly technical equipment.*

*What the State gets depends on the institution accepting the item. Ninety per cent of the inspection is nothing more than*

*the acceptance by the using agency. All of the people doing business with the State know which one of the institutions has a weak business manager and will accept anything and which ones have highly qualified business managers that want exactly what they specify. Thus, those that are not particular get inferior products.*

*The Department of Public Instruction insists on setting up their own standards for the training aids that they use in the schools. They spend a lot of money developing these standards and then never look at what they get or don't get; they are not required to approve or accept the product so it was a waste of money to prepare the standards.*

*A standard has been established on the item for which a quotation has been requested; however, a bidder will quote a substandard item at a much lower price and receive the bid.*

*When protested by an unsuccessful bidder, the Standards people have, on the spot, revised the standards to accept the lower priced commodity.*

*The State will go out to three branches of the same company for an item and, with three bids, this gives that company a decided edge in the competition.*

*Late payment of invoices—it took six weeks to get it inspected.*

*Hold payment until all items have been received; may have fifty to sixty thousand dollars tied up, plus surety bond for six months.*

*Surety bond is a nuisance to reputable suppliers.*

*The State is buying money. We have to borrow and then while we wait for payment, it is drawing interest and, as a result, this cost must be reflected in the price.*

*Some bids require a lump bid of all items; some suppliers can't provide all items so they are disqualified.*

*Inconsistent from one bid period to another as to what is "equal to"—depends on who makes the judgment and often-times changes.*

## SUPPLIERS OF STATE'S REQUIREMENTS—BIDDERS' LIST— VENDOR SOURCE FILE

The *Application for Admission to Bidders' List* form provides that anyone desiring to do business with the State can receive a request for quotation by merely checking the commodities on which he desires to bid. There is no known list of qualified and reliable sources available to the personnel responsible for requisitioning or buying. A request for quotation is automatically sent to the suppliers who have indicated a desire to bid. There is no way a buyer can restrict the bidders' list to qualified sources only. This procedure of suppliers basically selecting themselves is not conducive to true competition nor does it provide the best qualified sources.

11. *The Bidders' List should be purged to create an up-to-date file of qualified, financially responsible and reliable suppliers. It might be well to change the Application for Admission to Bidders' List to Source Evaluation Sheet. A yearly statement regarding financial status and current brochures of product lines and manufacturing capability should be required from the active list of potential suppliers. A program directed at soliciting qualified sources should be implemented. Requisitioners and buyers must be provided with this list of qualified suppliers, and required to use these sources.*

*Catalogs and brochures should be made available to all requisitioning agencies in order that they may properly evaluate from the various suppliers' catalogs the commodity they want to procure. A current up-to-date source file with only qualified, financially capable and reliable suppliers will substantiate recommendations.*

## BUDGET CONTROL AND COMMITMENTS

When the budget as presented by the Governor has been approved by the Legislature, it establishes the departmental budgets. Even though the budget has been approved, purchases of a normal nature still must go to the Comptroller for approval and verification of funds. On procurements where outside engineering sources are hired to design and prepare an estimate for a planned construction program, this requires not only the approval of the Comptroller, but must be approved by the Board of Commissioners of Public Grounds and Buildings. If the approval cycle has not been accomplished and the purchase orders placed on a



firm fixed price before the end of the fiscal year, the entire requirement must be resubmitted for budgetary approval again the following year, the cycle then starts all over again. This duplication of effort and delay is very costly.

12. *A method of control should be established so that once proper budget approval has taken place, it remains as a good allocation of funds until the contract is either consummated or can be placed within the funding allocated.*

## RECEIVING AND INSPECTION

The receiving and inspection system as presently set up, because of the geographical location of the many receiving locations, the involvement of standards people, supplier personnel, and those people that use the articles, is not adequate and is certainly not timely.

13. *Review completely current methods and establish systems and procedures to receive and inspect material promptly. Emphasis should be placed on supplier performance, statistical sampling methods, and the test procedures used on all commodities.*

## WAREHOUSING

The State has only one warehouse with a total storage area of 50,000 square feet. Consequently, most economical practices in the storage of high quantity items cannot be used because of limited warehouse space and lack of a transportation system to move these materials. In addition, using agencies are not required to requisition from the warehouse.

14. *Establish a warehouse system to utilize the warehousing operation in conjunction with annual procurement on high-use items that suppliers do not have on the shelf commercially at competitive prices. A system of withdrawal requisitions for accounting purposes should be used in lieu of formal purchase orders. Stock levels should be established based on usage and taken into consideration in the yearly budget approvals. Apparent plans to expand the warehousing program should be implemented. Procedures should be fully developed requiring agencies to use the warehouse system. The warehouse system should not be a sales organization, but utilized to store high-usage items which were procured on an annual basis for price benefit.*

## PROPERTY CONTROL

Except as contained in the *Administration Manual*, Item 0700, used by the Department of Property and Supplies, there is no procedure outlining property control systems for State departments and agencies.

15. *Procedures should be developed to cover all departments, agencies, commissions, and independent authorities within the Commonwealth in the accountability of property and the inventory management system required to determine the total assets of the Commonwealth.*

## SURPLUS PROPERTY

Four different units participate in the disposal of surplus State property: the Surplus Property Division; the Automotive Division; the Bureau of Publications and the Bureau of Surplus Federal Property. There seems to be little coordination among them. In addition, many departments and agencies do not take advantage of the services of the Surplus Property Division.

16. *The Surplus Property Division should control all Statewide surplus property disposal. Procedures should be developed to cover all departments, agencies, commissions, and independent authorities within the Commonwealth concerning methods for declaring an item surplus, how it will be disposed of, and where. The system should provide for on-site disposal and must call for a central record that shows the "how, why, what, and where" of every disposition. To induce all departments and agencies to utilize the services of the Surplus Property Division, a system should be established returning the funds realized through surplus action to the budget of the agency which had the surplus item. This recommendation should be coordinated with the recommendation on Property Control.*

## EMPLOYEE EDUCATION

Lack of familiarization among State employes outside of the Department of Property and Supplies with respect to procurement practices, procedures and requirements is a serious matter.

17. *The Commonwealth should undertake a continuing training program for personnel charged with responsibility of requisitioning material and services. The implementation of our recommendations in placing many procurement positions under Civil Service should upgrade the job descriptions and increase awareness of procurement practices.*

## PROCUREMENT PERSONNEL

The existing policies and procedures do not establish functional responsibilities or work standards that performance can be measured against. The opinion of the supervisor is the sole measure of performance.

18. *It is recommended that job descriptions be prepared stating the required qualifications and education necessary to perform the functions. Work standards should be established to measure performance against the standard. Records should be kept which will allow management to plan the work load and manpower requirements. Particular attention should be given to the establishment of a true buying function and not an order clerk. Attempts should be made to recruit recent college graduates into procurement for the purpose of upgrading the buying organizations and providing a better balance in age levels.*

*Personnel performing the physical buying of materials should be under Civil Service. Procedures outlined in the Administrative Manual, Item 0100, Personnel Policy and Procedures, governing personnel in the Department of Property and Supplies, do not supersede the policies of the Civil Service Commission or the Governor's Office.*

## CIVIL SERVICE

As mentioned earlier in this report, the environment in which procurement takes place is one of undue fear of politically inspired investigations and massive red tape.

19. *The Committee feels it would be highly desirable in many areas, such as the Surplus Property Division, Leasing, Bureau of Standards, and the Bureau of Purchases, to remove positions up to and including the Deputy Director of Procurement from the political arena and put them under Civil Service.*

## BUREAU OF STANDARDS

Some complaints have been received that delayed inspection holds up invoice payments and too stringent or non-industry specification over-complicates purchasing.

20. *Further study of the Bureau should be made in conjunction with our recommendation No. 8, Payment to Suppliers; No. 13, Receiving and Inspection, and No. 9. Establishment of a Value Analysis Group must be conducted to improve the operation of this organization.*

## BOARD OF COMMISSIONERS OF PUBLIC GROUNDS AND BUILDINGS

This organization currently has certain responsibilities that cause delay and duplication of effort in the procurement operation. The Board must approve the sales of used State vehicles, requests for office leases and accommodations outside the Capital City. Any purchase, regardless of size, must be approved by the Board if the buyer is unable to obtain at least two bids. To obtain this latter approval can take as long as forty-five days. Not only is this an unwarranted loss of time in the procurement cycle, it also is a needless waste of the Board's time.

21. *The Board of Commissioners of Public Grounds and Buildings should be removed from the procurement cycle. We can see no logical reason for this step in the procurement process.*

## THE AUTOMOTIVE BUREAU

With one exception, the Bureau appears to be buying and selling extremely well. The exception is the Commonwealth's failure to take advantage of mass buying for its own use and the corollary of permitting local government to take advantage of State open-end contracts.

22. *Our chief recommendation in this area would be changes to allow open-end bidding and to allow local governments to make purchases on State open-end contracts. That this can be done is indicated by a letter from Robert E. Brooks, Deputy Director of the Department of General Services of the State of California, to Thomas B. McCabe, Jr., on November 14, 1968, in which he stated: "We have purchased 166 Highway Patrol vehicles for local police and sheriff units, 1100 sedans, and 16 fire engines. Savings to local agencies on these units alone runs into the millions of dollars."*



## THE BUREAU OF PUBLICATIONS

Preliminary investigation indicates that the State should be paying converter rather than the user-price on paper purchased to be delivered to printers, which could mean a saving of approximately five per cent. Other problems include the duplication of effort with the University Presses, and paper quality problems with printers after the Standards inspector has accepted the paper. The problem of slow pay by the State is particularly acute here in securing bidders, since prompt payment and turnover of funds is a way of life among printers.

- 23. Further study of the Bureau of Publications should be made. Very likely most of its problems can be corrected by the implementation of recommendations made earlier in this report.*

## STATE LEASING PRACTICES

The fact that the Code gives permission for agencies to lease equipment without going through the Department of Property and Supplies would seem to create loopholes in procurement control. The State has not established sufficient long-range planning to enable the use of longer-term leases. No evidence exists to show that possible long-term advantages of buying/building are considered in lieu of leasing. The State is using several different lease forms.

- 24. Additional study of State leasing practices should be made to determine the effect of equipment leasing not being under the control of the Department of Property and Supplies. Also a standard lease form should be developed. The implementation of our recommendation to establish the Department of Property and Supplies as the responsible organization for the State's overall procurement should improve long-term planning.*

## GENERAL STATE AUTHORITY

The need for this Authority, originally formed to raise funds, design and construct health, school, and other State buildings, would seem to have disappeared with the revisions to the State Constitution to permit borrowing. It would appear to be a question as to whether it belongs under Property and Supplies or in a separate Department of Public Works. In any event, a combined Legislative and Executive Board would seem necessary in order to approve changes in job scope without the necessity of legislative action.

It is questionable whether much purchasing expertise is being applied to this operation today, which has some \$733 million of construction underway; and some provisions, such as the ten per cent bid bond which may be forfeited if errors are made in the bid and the inability of GSA to negotiate overtime, no doubt bring in bids cushioned for these eventualities.

Architectural consultants helped GSA set up standards and specifications a number of years ago which were meant to be flexible and change with the times. In practice, however, as applied by the Bureau of Engineering and Construction in Property and Supplies, they have been interpreted in an inflexible manner and add to the expense of construction. The same is true of school building construction standards as applied by the Department of Public Instruction.

25. *The original need for this Authority has disappeared and we recommend the General State Authority be dissolved.*

## LOCAL GOVERNMENT—STATE PROCUREMENT

As has been indicated in the report, the State is not taking full advantage of mass buying. Further, municipal, county and local governments have not been tied in to a State mass buying program. Normally, the larger the quantity purchased, the lower the unit price.

26. *It is our conception that the Department of Property and Supplies should be responsible for fully informing other government entities within the State re Commonwealth contract purchasing arrangements so that these groups can take advantage of the State procurement effort which should result in lowering costs for all parties concerned. Also, we would suggest that the State's total procurement effort and the procurement efforts of municipal, county, and local governments should be governed by the new recommended State systems and procedures and should be under continuous scrutiny by the Governor's office, and legislation should be enacted to encourage the Governor to do this. It should be recognized that a substantial percentage of municipal, county, and local governmental purchasing is paid for through State taxes, the revenue from which has been allocated to these governments by the State. (See Recommendation No. 22, The Automotive Bureau)*

## **II PERSONNEL MANAGEMENT**

## PERSONNEL MANAGEMENT TASK FORCE MEMBERS

Robert G. Bartlett, *Chairman*

Dr. Robert J. Mowitz

Rep. John T. Walsh

Dr. Donald C. Stone

Sen. John H. Ware

## CONSULTANTS

Lewis J. Bibri

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Bell Telephone Co. of Pa.

Benjamin D. Boylston

William O. Lory

Bethlehem Steel Corp.

Aluminum Corp. of America



# The Recommendations

## PERSONNEL ORGANIZATIONAL STRUCTURE

1. Establish a single central personnel organization in the Office of Administration with responsibility for personnel administration throughout the Commonwealth covering all agencies under the Governor's jurisdiction.
2. Consolidate the administrative activities now performed in the State Civil Service Commission and the Bureau of Personnel in the Central Personnel Organization.
3. The Civil Service Commission should retain advisory, investigative, and adjudicative functions.
4. The Office of the Governor's Personnel Secretary should be abolished when the positions for which he recruits are placed under the merit system and administered by the Central Personnel Organization.
5. The Central Personnel Organization would delegate responsibility for personnel management to departments and agencies to the maximum compatible with maintenance of the service-wide standards.

## MERIT SYSTEM—PATRONAGE

6. Expand the merit system to cover all positions in every State agency under the Governor's jurisdiction except that the Governor's appointment authority should include bureau director and sub-Cabinet level positions as well as Cabinet positions throughout the agencies under his jurisdiction.

## PERSONNEL ADMINISTRATION IN THE DEPARTMENTS

7. The department or agency head should be charged by the Governor with the implementation of a progressive personnel program.
8. Establish a personnel officer of stature within each department and major agency to help in the development and effectuation of such a program.
9. Delegate more personnel functions to the departments as rapidly as they demonstrate competence to carry out such functions.
10. As a principal task, the proposed Central Personnel Organization should foster effective personnel operations within the executive agencies.

MANPOWER PLANNING AND DEVELOPMENT

- 11. Expand and accelerate the Manpower Planning and Development System for the continuing assessment of professional, technical, and administrative personnel requirements in all agencies so that recruitment and development activities can be geared toward providing an effective work force when and where required.
- 12. Provide necessary expert staff on a permanent basis to carry out this function as a part of the previously recommended Central Personnel Organization.
- 13. Define the role of departments in the implementation of the system.
- 14. Universities, school systems, and other educational institutions should be brought into partnership to assure that an adequate supply of the various categories of personnel will be available to meet anticipated requirements.

EMPLOYE BENEFITS

- 15. A new leave-earning schedule is proposed to reward long-service employees as follows:

<u>Years of Service</u>	<u>Days of Leave</u>
up to 1	5
1-7	10
8-19	15
20 and over	20

- 16. It is suggested that the Governor not declare holidays in addition to the 13 designated by statute with the exception of Primary Election Day; employees should use annual leave in lieu of other days off.
- 17. The Hospitalization and Medical-Surgical Insurance program is more than adequate as well as competitive at present, but it is recommended that the Commonwealth continue to increase its contributions.
- 18. An employee education program and sharper managerial control of sick leave is strongly recommended. When the costs are improved, long-term benefits (disability benefits) should then be considered.  
Sick benefits should cover only illness to the employee, quarantine, and death in family. Consideration should be given to a new schedule for the earning and accumulation of sick benefits.
- 19. It is recommended that the Commonwealth provide insured death benefits at no cost to its employees. Also, it is suggested that optional supplemental benefits be provided with employees paying whatever extra costs are involved.

20. Age 65 is recommended for mandatory retirement with provision for Executive Board extension to age 70.
21. It is recommended that no additional benefits be added to the retirement program except cost of living increases to annuitants and beneficiaries when deemed necessary. Further, new employes should be given the option of joining the system during the first three years of employment.
22. It is recommended that the Commonwealth's program of Workmen's Compensation insurance be studied by the Administration, in depth, as proposed in the narrative.

#### CIVIL SERVICE ACT

23. Amend Section 507 of the Civil Service Act to:
  - (a) Fully invest managerial authority in the administrative position responsible for the day-to-day routine functions of the Civil Service Commission's processes.
  - (b) The Civil Service Commission be designated a reviewing body limited to investigating and hearing appeals relating to any infractions of merit system principles.
24. Amend Section 601 of the Civil Service Act to:
  - (a) Specify that a minimum of five applicants be certified on a list to an appointing authority for each vacancy to be filled, allowing an appointing authority greater flexibility in choosing employees.
  - (b) Establish that an "incomplete list" would be a list with less than five certified applicants.
  - (c) That all eligibles on the Civil Service list having a score within five points of the top applicant be certified to the appointing authority.
25. Amend Sections 501, 601 and 602 of the Civil Service Act to allow supervisors to choose any of the eligibles on a Civil Service promotion list.
26. Amend Article V of the Civil Service Act by deleting the citizenship, Pennsylvania residency and administrative district residency requirements.

#### CLASSIFICATION AND COMPENSATION

27. Remove existing legislated executive salary limits and adjust in accordance with a pay plan based on evaluated worth of these positions.

28. A certain percentage of any funds to be used for a general increase should be appropriated for the resolution of internal salary inequities.
29. Consideration should be given to the development of a plan to consolidate overlapping position levels and pay rates by better job design and proper organizational and reporting relationships.
30. Consideration should be given to establishing a special commission every four years to examine and make recommendations concerning pay scales for top political and career executive positions, including the Governor.
31. The Office of Administration should develop appropriate standards for comparison purposes and apply the Guide Chart Profile system on a state-wide basis to make sure that the salary structure changes sought by the administration have acceptable validity.
32. Selective salary surveys by the Office of Administration should compare Commonwealth salaries for benchmark positions with salaries paid for similar positions in the other jurisdictions which have been adopted as the standards of comparison for this purpose by the Commonwealth of Pennsylvania.
33. A method of adjusting the salary structure and pay ranges for the Commonwealth should be developed, based on findings in Recommendation 32 above. Such adjustments should reflect appropriate consideration of living costs variations and changes in the competitive levels of salary structures as well as the rate of progress planned to reach salary policy goals which have been determined and approved for the Commonwealth.
34. The Office of Administration should devote more emphasis to the maintenance of the classification plan.
35. Responsibility for position classification should be decentralized as much as possible to the operating agencies under the surveillance and control of the Office of Administration.
36. Greater support should be provided the Bureau of Personnel in the Office of Administration to develop a highly trained and knowledgeable staff capable of providing the required leadership in position classification and pay administration.
37. Develop a compensation plan to provide for several within-grade salary increases up to a certain level based on satisfactory performance; and additional within-grade increases be granted only on the basis of outstanding performance.

# The Problem

This report concerns itself with the most significant personnel management challenges which the Commonwealth must meet in order to attract, retain, and achieve full utilization of a qualified work force competent to provide efficient services in a large and demanding modern state.

The Commission initially reviewed available Commonwealth literature concerning personnel management and pertinent federal reports and publications.

Next, the Executive Director of the State Civil Service Commission, the Director of Personnel in the Office of Administration, and the Governor's Personnel Secretary presented their views. The administrative heads of the larger Commonwealth agencies appeared or presented reports on personnel management as they viewed it from an operational standpoint.

Field visits were then arranged in various offices, agencies, and institutions throughout the State during which members of the Commission and consultants could independently observe typical State facilities in operation and discuss personnel matters with employes and supervisors at all levels.

Representatives of industry and private insurance carriers; officials of the states of New York, New Jersey, Michigan, Ohio and California; the State Council of Public Employees, and the Joint State Government Commission were consulted. Recent research reports were studied, supplied by Chamber of Commerce of the United States, Pennsylvania League for Civil Service, State of Arkansas Highway Department, National Association of State Budget Officers and the Council of State Governments.

The information was reviewed, discussed and evaluated until it was felt that the principal problem areas could be isolated and studied in depth.

This report covers the following areas concerning personnel administration:

- Personnel Organizational Structure
- Merit System—Patronage
- Personnel Administration in Departments
- Manpower Planning and Development
- Employee Benefits
- Civil Service Act
- Classification and Compensation

We believe that if the Commonwealth institutes a modern and comprehensive system of personnel administration as recommended in this report, a major improvement in the quality of public service will take place.



# Approaches and Recommendations

## THE PERSONNEL ORGANIZATIONAL STRUCTURE

Personnel management in the Commonwealth is now governed by three central agencies: the Bureau of Personnel in the Office of Administration, the State Civil Service Commission and the Governor's Personnel Office.

The Bureau of Personnel has final responsibility for classification, compensation, training, employee benefits, personnel rules, and other related activities not ascribed to the State Civil Service Commission by the the Civil Service Act.

The Civil Service Commission does some recruiting, publishes announcements, evaluates applications, conducts examinations, establishes lists of eligibles and determines the propriety of appointments and promotions for all Civil Service positions. In addition, it issues policies and hears appeals.

The Governor's Personnel Office processes applications, performs limited recruiting, and sets policy or establishes procedures with regard to the Commonwealth's patronage positions and employees.

The effectiveness of personnel management varies very considerably among operating agencies. Personnel programs range from records and processing activities to relatively comprehensive programs in various stages of development.

Although department heads and/or department personnel officers have a distinct impact upon their particular agency program, the existing three personnel agencies, with control responsibility, generally have a restraining or retarding effect on the development and efficacy of department personnel programs.

Directional leadership in personnel management on a Commonwealth-wide basis is minimal if it exists at all, principally because the total final responsibility is uncoordinated and vested in three separate organizations. A central personnel organization is necessary in order to provide uniformity of direction in all aspects of personnel management in all operating agencies.

1. *A single Central Personnel Organization be established in the Office of Administration with responsibility for personnel administration throughout the Commonwealth covering all agencies under the Governor's jurisdiction.*
2. *The administrative activities now performed in the State Civil Service Commission and the Bureau of Personnel be consolidated in the Central Personnel Organization.*
3. *The Civil Service Commission retain advisory, investigative, and adjudicative functions.*
4. *The Office of the Governor's Personnel Secretary be abolished when the positions for which he recruits are placed under the merit system and administered by the Central Personnel Organization.*
5. *The Central Personnel Organization delegate responsibility for personnel management to departments and agencies to the maximum compatible with maintenance of service-wide standards.*

## MERIT SYSTEM—PATRONAGE

Approximately sixty thousand State positions are now covered by the merit system and another forty-five thousand remain under patronage.

Since passage of the Pendleton Act in 1883, we have accumulated ample experience concerning the efficacy of merit systems for public employment. Without attempting to recapitulate the history of this experience, recruitment and selection of personnel to work for modern organizations has become a professional operation which political parties are not equipped to perform.

Moreover, if the public is to obtain effective administration in government, then standards of merit must prevail in the employment, retention, promotion and removal of employees. The goals and objectives of political parties are more likely to be achieved if, when holding power, there exists an ongoing organizational structure with the capability of carrying out the policies of the party in power. To this end, large industrial states like California, Michigan and New York already have more than 90 per cent civil service coverage.

While recommending extending coverage under the merit system for State employees, at the same time we would like to emphasize that personnel policies and practices be developed which will assure on the one hand incentives and promotion for effective performance and on the other hand disincentives and removal for non-effective performance.



A valid criticism of the merit system has been the tendency to guarantee employment for persons once selected regardless of the quality of performance. The remedy for this condition is not the patronage system but rather a system of ongoing personnel management which relates rewards and penalties to the quality of performance.

Under present law the extent of the Governor's appointing power varies among departments. In some agencies the appointing power is limited to the naming of the Secretary and his deputies, while bureau directors are under the classified service. In other agencies, such as the Governor's Office of Administration, bureau directors are appointed by the Governor.

While the need is recognized for a comprehensive merit system for the professional bureaucracy, at the same time the policy-making powers of the politically responsible executive, the Governor, must also be guaranteed.

It would be difficult to obtain agreement on precisely what positions may or may not involve high level "policy-making responsibility" in any large organization. Bureau directors and their superiors are in a position to make decisions affecting resource allocations having a bearing upon policy. It would therefore appear that a Governor should have the power to fill positions at the bureau director level and above with those sympathetic to his policies without the requirement of competitive examination.

In making the following recommendation we should like to make special note of the fact that individuals in the classified service may be granted leaves of absence from their classified position to accept positions in the unclassified service. It would therefore be possible, and often desirable, for a classified executive to serve for a period of time in a sub-cabinet or bureau director post and return to his former classified status. Such leaves are ordinarily granted for a two-year period and may be renewed for additional two-year periods. This allows the executive in the classified position to serve as a political appointee without losing his classified status.

Vigorous and resourceful steps are required in the recruitment of the best leadership the State can provide for filling Cabinet and sub-Cabinet posts, membership on boards and commissions, and other top positions filled by the Governor outside the formal merit system. The quality of personnel enlisted for these crucial positions in large measure determines

the quality of leadership provided by each new State administration in formulating and carrying through major policies and programs. They set the tone for the entire government. Inasmuch as there are two or three hundred such positions, the task of filling them is a substantial personnel job.

What is proposed is more formal recognition of this special personnel function and strengthening of the procedure by the Governor for identifying, evaluating, negotiating, and appointing persons to these key political and policy positions. This work entails a thorough search among State political, business, labor, professional, and community organization circles for persons with the leadership capabilities, executive competencies, policy concerns, and public sensitivities required for these top-level positions. The challenge to any governor is to put together a leadership team representing many backgrounds, concerns, and capabilities.

*6. Expand the merit system to cover all positions in every State agency under the Governor's jurisdiction except that the Governor's appointment authority should include bureau director and sub-Cabinet level positions as well as Cabinet positions throughout the agencies under his jurisdiction.*

## PERSONNEL ADMINISTRATION IN THE DEPARTMENTS

Most personnel management tasks must be performed within individual departments and agencies. No matter how well the central personnel tasks are performed, the quality of persons recruited and the effectiveness with which persons are developed, supervised, and disciplined, depends largely upon the initiative of department heads, the stature of their departmental personnel officers, and the capability of supervisors at each operating level, both at Harrisburg and in the field.

Pennsylvania lags in the development of departmental personnel programs and in the appointment of highly trained and experienced personnel officers to assist the department head and other officers in carrying forward progressive personnel programs. Thus a major focus of Commonwealth personnel objectives should be to strengthen the personnel programs of each department.

Both government and major business enterprises have found better management and personnel practices develop when there is substantial decentralization of personnel activities from the central personnel agency

to the operating departments and establishments. Thus, with respect to each major personnel activity—classification, recruitment, promotion, and training—agreement must be reached between the central personnel agency and the department as to how these activities will be conducted. Responsibility and authority for specific personnel tasks should be delegated to the agencies as rapidly as they demonstrate competence to carry them out effectively. Such delegations can always be retracted if a department is found derelict in its performance.

For example, the recruitment and appointment of highest quality personnel is a function to be shared between the central personnel agency and the operating department. For positions which are common throughout the government service, central recruitment and the development of State-wide eligible registers is desirable. However, specialized, professional and technical personnel, such as physicians, public welfare specialists, agronomists, highway engineers, the departments immediately concerned, are in closest touch with the universities, professional associations, and other sources of supply. The central agency may turn up prospects and approve standards, but the professional staff of the departments are often in better position to identify and enlist the interest of qualified prospects. Thus the responsibility for evaluating relative qualification of recruited applicants can often best be carried out by the department if it is organized appropriately to do this. Obviously it must fulfill general standards and procedure defined by the central personnel organization.

Tasks like staff development, evaluation of performance, and initiation of salary increases and other awards, primary initiative obviously rests with the department. The central organization should have as a major objective the fostering of effective departmental personnel management and the training of all administrators and supervisors in managerial skills. Effective management is in large measure a matter of effective supervision and training of people.

7. *The department or agency head should be charged by the Governor with implementation of a progressive personnel program.*
8. *Establish a personnel officer of stature within each department and major agency to aid in the development and effectuation of such a program.*
9. *Delegate more personnel functions to the department as rapidly as they demonstrate competence to carry out such functions.*

10. *As a principal task, the proposed Central Personnel Organization should foster effective personnel operations within the executive agencies.*

## MANPOWER PLANNING AND DEVELOPMENT

Manpower planning and development is the foundation for an effective personnel system for the Commonwealth of Pennsylvania. The traditional method of state civil service systems has been to announce examinations and to screen applicants to fill vacant positions. The Commonwealth has known virtually nothing about the caliber and capabilities of its professional, administrative and technical personnel.

In the absence of projections of future personnel requirements, on the one hand, and an analysis of present State personnel competencies and external sources of supply, on the other, the recruitment and promotion of personnel has been on a fragmented, job-to-job basis.

Manpower planning is concerned with determining the kinds of functions to be carried out over future periods of time, the positions required to perform these functions, the qualifications of persons needed in filling these positions, and the taking of essential steps to assure that qualified people are being developed and will be available at the time and place needed. As amplification of this subject, the Commission endorses the proposals submitted by Dr. Donald C. Stone, Dean Emeritus, Graduate School of Public and International Affairs, University of Pittsburgh, which are found in the Appendix.

The development of carefully analyzed and evaluated projections of personnel requirements provides the basis for current and future recruitment efforts. It enables the central personnel organization and the departments to establish recruitment policies and schedules on a programmed basis. It provides the information essential for determining the kind and scope of training and development of employees best suited for present and future responsibilities. It enables the identification of demonstrated and potential competence of individuals for the purpose of fulfilling manpower requirements throughout the entire service.

With an effective system of manpower planning, the State, for the first time, will be in a position to determine the fields and character of educational programs that will be needed to produce adequate personnel resources at the time required. Conversely, the system will furnish universities, schools, technical institutes and other educational



organizations with knowledge about the future market for personnel and thus provide the ingredients for both State-wide and individual institutional educational planning.

To carry out the comprehensive manpower planning program, the Governor recently created a Manpower Planning Division in the Personnel Bureau under the Secretary of Administration. Thus, the State has already launched development of a Manpower Planning and Development System.

The first step in developing the system, namely an executive manpower inventory, was started more than a year ago. This is the executive inventory covering administrative, professional and technical personnel. It is patterned after the Federal civil service inventory but with a number of added features. In addition to being an element in a Manpower Planning and Development System, it is designed as a tool in (1) planning management resources, (2) in the acquisition, utilization, and development of personnel, (3) in the reassignment and promotion of employees. To this end, the inventory includes a schedule of 24 principal areas of management for training and placement purposes.

In relating manpower planning to the new Planning, Programming, Budgeting System project, a factual basis is provided for manpower budgeting. The system will enable the quantification of manpower needs, availabilities, and deficits over a five-year time-frame, with a precise manpower plan for the forthcoming budget year. This will enable development and initiation of a recruitment program long in advance of appropriations.

11. *Expand and accelerate the Manpower Planning and Development System for the continuing assessment of professional, technical, and administrative personnel requirements in all agencies so that recruitment and development activities can be geared toward providing an effective work force when and where required.*
12. *Provide necessary expert staff on a permanent basis to carry out this function as a part of the previously recommended Central Personnel Organization.*
13. *Define the role of departments in the implementation of the system.*

*14. Universities, school systems, and other educational institutions should be brought into partnership to assure that an adequate supply of the various categories of personnel will be available to meet anticipated requirements.*

## EMPLOYEE BENEFITS

### ANNUAL VACATION LEAVE

Annual leave is granted in days at the rate of three times the number of days in the normal work week (usually 15). As long as the employee is in compensable status for 10 or more days in the calendar month, he earns leave at the rate of  $1\frac{1}{4}$  days for that month. Annual leave days may be accumulated to a maximum of the amount earned in two years (thirty); the accumulation not used upon termination is paid in a lump sum.

Annual leave, as set forth in the Administrative Code at present, has one major weakness. Employees with one year of service earn as much leave as the long-service employee. It is costly—\$33.0 million annually or 5.5 per cent of the payroll. This is somewhat higher than industry's 4.2 per cent, but not alarmingly so.

Many employees feel that leave costs should not be compared to payroll costs because it comes out of salary, and salary must be paid whether or not work is performed. What they fail to realize is that the more absenteeism due to leave, the greater number of employees needed. By lowering leave costs (less days off), payroll costs are also lowered.

Lowering the days of leave earned during the first years of employment is no real hardship. Other employers are not so generous as the Commonwealth.

With thirteen paid holidays, days off would total a minimum of 18 annually for even the newest employees. One of the poorest images of Commonwealth employees concerns leave and holidays. An improvement would be effected in the employee image and the fiscal picture improved by revising the amount of leave earned.

Turnover also is greater among short-service employees. With the payment for accumulation to terminating employees, annual leave is probably more expensive than herein estimated; i.e., annual leave budgeting is based on present salaries but with accumulation privileges is payable at the higher salary rates of the future.

15. *A new leave-earning schedule is proposed to reward long-service employes as follows:*

<u>Years of Service</u>	<u>Days of Leave</u>
<i>up to 1</i>	<i>5</i>
<i>1-7</i>	<i>10</i>
<i>8-19</i>	<i>15</i>
<i>20 and over</i>	<i>20</i>

**HOLIDAYS**

The General Assembly has provided the following thirteen paid holidays for salaried Commonwealth employes:

- New Year's Day
- Lincoln's Birthday
- Washington's Birthday
- Good Friday
- Memorial Day
- Flag Day
- Independence Day
- Labor Day
- Columbus Day
- General Election Day
- Veterans' Day
- Thanksgiving
- Christmas

If a holiday falls on Sunday, it is observed the following Monday.

The Governor may declare additional holidays, and, in the past, the day after Thanksgiving, Primary Election Day and the religious holidays for members of the Jewish and other faiths have been permitted.

16. *It is suggested that the Governor not declare holidays in addition to the 13 designated by statute with the exception of Primary Election Day. Employes should use annual leave in lieu of other days off.*

**HOSPITALIZATION AND MEDICAL-SURGICAL INSURANCE**

The Commonwealth provides a voluntary contributory hospitalization and medical-surgical insurance plan. Approximately 60,000 employes and annuitants have elected coverage. The State provides \$5.00 per month toward the premium. This means that \$3.0 million is budgeted, or 0.5 per cent of the payroll.

At the present time, Blue Cross and Blue Shield underwrite the coverage; and a major medical program is also included. The Blue Cross portion is 120-day coverage, semi-private care, anesthetic and diagnostic, and emergency out-patient care. Blue Shield has an "A" and "B" plan. "A" costs less and returns less; "B" costs more but returns more. Both provide the same type coverage, only the amount of coverage differs. Major medical coverage includes 80 per cent of the remaining medical bills after \$100 deductible, including prescription drugs, office visits, and private duty nursing care for a lifetime maximum of \$25,000.

A 65-Special program including major medical benefits supplements Medicare for our employes over age 65. Employes may take their program into retirement. If their Commonwealth annuity is sufficient, the premium may be deducted from their monthly check. Both employes in the 65-Special program and annuitants benefit from the monthly Commonwealth contribution of \$5.00.

At the present time State employes have one of the best programs available. The program has improved over the past years. With the improvements the costs have risen accordingly. Full family benefits in the Pittsburgh area counties now cost \$316.32 (\$26.36 monthly.) This is steep for our many employes whose net bi-weekly salary checks are below \$100.00. These are the employes who cannot afford to be without protection. But with the family responsibilities they hold, it is impossible for them to allocate \$26 each month to health insurance.

The past several changes to the Blue Cross and Blue Shield programs have added benefits for the few, such as parents of college students over age 19; parents of dependent disabled children over age 19; major medical limitations from \$10,000 to \$25,000, and maternity waiting period from 9 to 8 months. These increased the cost of the program but did not benefit most of the employes covered.

What would truly benefit would be a stabilization of benefits and an increase in Commonwealth contributions. Very few employers contribute as little as does the Commonwealth. It is not uncommon for an employer to contribute the entire amount.

*17. The Hospitalization and Medical-Surgical Insurance program is more than adequate as well as competitive at present, but it is recommended that the Commonwealth continue to increase its contributions.*



### SICK LEAVE

Sick leave is earned at the same rate and in the same manner as annual leave, but 90 days of sick leave may be accumulated. Unlike annual leave, which was designed for rest and relaxation, sick leave is to be used for sickness or death in the family.

It is estimated that sick leave costs \$33.0 million annually or 5.5 per cent of the payroll, but exact statistics are not available, however. Industry averages 0.8 per cent.

Of all benefits offered to Commonwealth employees, sick leave is the most misunderstood and the most abused. How many thousand employees are overheard to say "I earned my sick leave so I am going to take it." Several agencies report short-service employees as the worst offenders. Others note that once employees accumulate the 90-day maximum, sick leave increases. Still others report that sick leave use or abuse varies with the individual supervisor and his control.

In no case should accumulated sick benefits or any part of them be paid at the time of retirement as is suggested by proposed legislation. Payments undermine the purpose of the benefits. The whole success of such a benefit lies in the compliance with its intent by all employees. It is easy to see that by curbing abuse benefits can be increased for those who need them. Much of industry permits limited or no sick leave benefits, especially to the wage sector. Commonwealth generosity in providing benefits when there is illness, quarantine or family death can continue only if the educational measures prove successful in curbing abuse.

A final thought—retirement at age 65 will cut sick leave because lengthy illnesses tend to occur later in life.

18. *An employee education program and sharper managerial control of sick leave is strongly recommended. When the costs are improved, long-term benefits (disability benefits) should then be considered. Sick benefits should cover only illness to the employee, quarantine, and death in the family. Consideration should be given to a new schedule for the earning and accumulation of sick benefits.*

### LIFE INSURANCE

On July 31, 1968 a group life insurance program was enacted for Commonwealth employees with implementation scheduled for February 1, 1969. Each insured employee is covered to the nearest \$1000 of his

annual salary, with a minimum policy of \$2500 and a maximum one of \$20,000. The amount of insurance coverage for employes age 65 and over is one-half the amount provided by his salary. Deductions will be decreased accordingly.

Employes who terminate or retire have the privilege of converting their insurance to whole life at the time of termination. Proof of insurability is not required at conversion. All employes in permanent positions with three months of service are automatically insured unless they specifically indicate in writing that they do not want the insurance.

The insurance costs the employe 20 cents bi-weekly per \$1,000 of coverage. This is the maximum permitted under the present Act. In addition, the Commonwealth pays approximately one-half of the total premium. It is estimated that the Commonwealth will pay \$4.2 million annually for the program, or .7 per cent of the salary budget.

*19. It is recommended that the Commonwealth provide insured death benefits at no cost to its employes. Also, it is suggested that optional supplemental benefits be provided with employes paying whatever extra costs are involved.*

#### MANDATORY RETIREMENT AGE

The study of several of the benefits revealed that part of the costs were probably higher than industry's because of the large numbers of older employes on the payroll. The average age of the employe group is 45. The Commonwealth has 2,588 employes over age 65, of which 835 are over age 70 and 52 are over age 80. It was found that for the most part no regard to age or physical condition is made during the hiring process or subsequent evaluation procedures. There is no mandatory retirement age, except in a few law enforcement areas—State Police, Game Commission, Fish Commission.

Workmen's Compensation is one benefit which the Commonwealth must pay extra for its older employes. It is known that older employes are in a high-risk group.

Under the present retirement system, employes may retire with full benefits. Since there is no required number of years of service, an immediate burden is placed on the system when any employe reaches 60, or is older than 60 when hired. Life insurance premiums or self-insurance

costs must necessarily be higher when there are older employes on the payroll. Sick benefits costs are also higher; older persons are more prone to have lengthy, serious illnesses.

Industry has found it advantageous to require retirement at specified ages in order to ensure full physical and mental alertness and energy on the assigned job. With the Commonwealth's generous retirement program and Social Security, this should pose no major hardship to the employes involved.

*20. Age 65 is recommended for mandatory retirement with provision for Executive Board extension to age 70.*

#### RETIREMENT PROGRAM

The State Employes Retirement System is a contributory program whereby the employe's contributions, based on age at time of employment and sex, are deducted from his paycheck. Interest at the rate of 4 per cent is applied to the account.

If the employe continues Commonwealth employment until he reaches 60 years of age or 25 years of service, a State's share and an equalizing share are added to his account and he receives an annuity for the rest of his life. Certain other options are also available.

If, however, he leaves State service prior to the eligibility for retirement benefits, he may elect to withdraw his contributions and interest, but not State's share, upon application.

Several other benefits may also accrue to members. If an employe becomes disabled, is under 60 years of age, and has 60 months of service, he may apply for disability benefits. The beneficiary of an employe age 60 or who has ten years of service at death receives the value of the employe's account as though the employe retired the day prior to his death.

Benefits under a single life annuity approximately equal the average annual salary for the employe's five highest years multiplied by the years of service multiplied by two percent (very generous as compared to industry's one per cent). If an employe at retirement is not yet 60 but has 25 years of service the annuity is reduced by a factor based on his age. The employe may also choose another of the several options which will provide a reduced lifetime income for him and possibly income for his beneficiary. Some employes receive annuities which are also reduced by a Social Security offset if they have not paid this amount prior to

retirement. Described above is the basic retirement program. This program includes some 105,000 employees and costs the Commonwealth approximately \$43.8 million annually. There are some 13,000 annuitants.

On July 31, 1968, Senate Bill 1295 was signed after it was passed by the General Assembly. The Joint State Government Commission worked with the Retirement Board's actuarial firm to design the bill. One of the largest benefits provided cost-of-living increases to about 8000 annuitants. Funding will now extend over a thirty-year period as contrasted to ten years formerly. There were improvements to the retirement program which may benefit most members of the system. Included are provisions for vesting after ten years of service, improved disability benefits, liberalization of retirement options, and a lower base contribution rate.

The package increases the budget \$12.2 million even though some of the costs will be borne by the improved funding. The total allocation to the Retirement Board now equals \$56 million.

The Commonwealth does have an excellent retirement program. Retirement costs industry 4.0 per cent and other benefits like the above cost another 2.1 per cent for a total of 6.1 per cent. This compares to the Commonwealth's 9.3 per cent for retirement.

The additional \$12.2 million required this year for new benefits would have paid for Blue Cross and Blue Shield for present subscribers or group life insurance of twice the salary of all employees at no cost to the employee group.

Just how valuable as compared to the possible improvements of other Commonwealth benefits the increased benefits will prove to our present employees is moot at this time. Those employees whose rates of contributions are less than five per cent and who will never earn the Social Security maximum taxable base income cannot benefit except by vesting or through one of the options. Employees whose rates of contributions are greater than five per cent and who will not earn the Social Security maximum taxable base income will see only a minimum change in their net salary if they voted for S.S.I.

Social Security Integration can benefit some 9,000 Commonwealth employees whose annual income exceeds the Social Security maximum taxable base. However, the net earnings are likely to decrease. The retirement rate decreases to five per cent but ten per cent must be contributed on any income earned over \$7800.



Due to high turnover in early years of employment and relative wage levels provided new employees, it is suggested that retirement contributions and plan participation be optional for the first three years. In addition to increasing "take-home" pay during this period, it will decrease avoidable administrative costs for those employees who leave work before completing three years of service.

21. *It is recommended that no additional benefits be added to the retirement program except cost-of-living increases to annuitants and beneficiaries when deemed necessary. Further, new employees should be given the option of joining the system during the first three years of employment.*

## WORKMEN'S COMPENSATION

The State Workmen's Insurance Fund is the carrier for the workmen's compensation program of the Commonwealth. The cost is approximately \$3 million or 0.5 per cent of payroll and benefits paid out annually are about \$2 million. State Workmen's Insurance Fund operates solely from premiums.

The rate of return per dollar spent is limited which probably indicates that the Commonwealth subsidizes part of the other non-State groups who also use S.W.I.F. as a carrier. Even with the poor rate of return, our percentage of payroll is less than U.S. industry.

Private insurance carrier representatives claim that our method of insurance is undoubtedly less costly than using a private carrier. Statistics may bear this out—private industries typically use a private carrier and their payroll costs are higher. What the statistics do not reveal is the truly poor claim service by S.W.I.F.

22. *It is recommended that the operation of the State Workmen's Insurance Fund and the Commonwealth's participation be studied in depth by the Administration with objective of providing the best possible insurance and claim service at the least possible cost. Alternatives for improving the present system, using a private insurance carrier and self insurance, should be considered.*

## CIVIL SERVICE ACT

### BASIS OF AUTHORITY

The Civil Service Act grants considerable authority to the Civil Service Commission members. As a result of this, decisions regarding mat-

ters of a routine nature must be placed before Commission members before appropriate action can be taken. This frequently delays the consideration of applicants until the monthly meeting is held.

23. *Amend Section 507 of the Civil Service Act to:*

- (a) *Fully invest managerial authority in the administrative position responsible for the day-to-day routine functions of the Civil Service Commission's processes.*
- (b) *The Civil Service Commission be designated a reviewing body limited to investigating and hearing appeals relating to any infractions of merit system principles.*

#### RULE OF THREE—EMPLOYMENT LISTS

Section 601 of the Civil Service Act specifies that the Executive Director shall issue a certified list to an appointing authority upon his request to fill a vacancy. The three eligibles with the highest scores on the examination are certified to the appointing authority so that he may have an opportunity to choose among them in filling the position. This rule of three reverts back to the principle of limiting the appointing authority's choice so that "political influence" will not be exercised in the choosing of an applicant to fill a position.

Innumerable difficulties have arisen through the use of the rule of three since modern society has produced so many specializations within classifications of positions used by the Commonwealth. That our Government employment system recognizes this fact is exemplified by the many parenthetical "specialties" used in the classification plan. Furthermore, in government employment, there are many positions which can only be filled by applicants who exhibit certain leadership abilities and attitudes and who are very adept at public-contact work.

It generally is recognized that a written examination cannot differentiate the potential of prospective employes to the extent that a few points difference will draw a line of distinction between good and poor performance. If a manager must choose from the top three in filling his position, he frequently has no real choice but may in fact be forced into employing the best of three poor alternates.

24. *Amend Section 601 of the Civil Service Act to:*

- (a) *Specify that a minimum of five applicants be certified on a list to an appointing authority for each vacancy to be filled, allowing an appointing authority greater flexibility in choosing employes.*

- (b) *Establish that an "incomplete list" would be a list with less than five certified applicants.*
- (c) *That all eligibles on the Civil Service list having a score within five points of the top applicant be certified to the appointing authority.*

#### RULE OF THREE—PROMOTION LISTS

Promotion lists presently are differentiated from employment lists in that the promotion list does not include veterans preference, consisting only of employes who, at the time they took the examination, had probationary or permanent Civil Service status.

There is a very distinct difference between the candidate on employment and promotion lists that is not recognized by the Civil Service Act. A supervisor who is filling a vacancy has either a personal knowledge of the working capabilities and potential of the candidates on promotion lists, or he has sources readily available through which he can obtain this information.

Such information can, of course, only be accurate if the eligible on the promotion list is working in the same class series or a similar type of work.

- 25. *Amend Sections 501, 601 and 602 of the Civil Service Act to allow supervisors to choose any of the eligibles on a Civil Service promotion list.*

#### CITIZENSHIP AND RESIDENCE

Article V of the Civil Service Act requires that applicants for Civil Service examinations must be from specific administrative districts, residents of Pennsylvania, and citizens of the United States unless otherwise declared by the Executive Director of the Commission in accordance with the request from an appointing authority justifying the removal of these requirements. Requirements of this type were frequently placed in Civil Service regulations at one time as a carry-over from the patronage system. Candidates were required not only to be Pennsylvanians but also were considered within specific localities within the State.

This concept has become outmoded in our current mobile society. Specialization of talent, a market of readily accessible employment, and ease of transportation now require that the Commonwealth consider all applicants available in an effort to find the most qualified to fill a public-service position.



By-products of Article V are employment and promotion eligible lists, which first include in rank order the names of all applicants from within the administrative district who may be considered for a vacancy, and afterwards, on a separate listing, provide the names of applicants from other administrative districts that will be certified after the "home-town boys" have had a chance at obtaining the position. This practice negates the principle of providing an open-career service within the Commonwealth and allowing the supervisors to choose the best-qualified applicant.

26. *Amend Article V of the Civil Service Act by deleting the citizenship, Pennsylvania residency and administrative district residency requirements.*

## CLASSIFICATION AND COMPENSATION

### SOLVING INTERNAL SALARY INEQUITIES

The greatest compression in Commonwealth salaries appears in top executive, managerial and professional positions because of statutory ceilings. Studies show that, on a basis of internal equity as well as outside comparisons, the salaries of the Governor, Secretaries of Departments and other key positions are far too low. As a result, this compression impairs salary levels down into middle management positions, creates serious internal salary inequities and makes a rational and equitable salary administration plan impossible.

Since it generally is accepted that the elimination of internal salary inequities is more important to employe motivation and morale than the relationships of salaries to those of other employers, it is recommended that primary emphasis be given to resolving internal inequities before attempting to make the entire salary structure competitive with the salary structure of other jurisdictions. The proper use of the "Guide Chart-Profile" system, under development at present by the Office of Administration, should provide a better method for dealing with internal salary inequities. An examination of the areas where compression problems are obvious should indicate the present relationship of actual salaries to job values and provide a basis for a planned program of remedial action. In addition, it should be useful in determining the extent of this problem to determine overall recommendations.

A certain percentage of the funds approved for salary increases should be reserved for the resolution of internal salary inequities. By applying a certain percentage of funds to resolve salary inequities, and, at the

same time, eliminating the compressions in the present salary structure, the problems involving salary inequities can be resolved over a period of time.

27. *Remove existing legislated executive salary limits and adjust in accordance with a pay plan based on evaluated worth of these positions.*
28. *A certain percentage of any funds to be used for a general increase should be appropriated for the resolution of internal salary inequities.*
29. *Consideration should be given to the development of a plan to consolidate overlapping position levels and pay rates by better job design and proper organizational and reporting relationships.*
30. *Consideration should be given to establishing a special commission every four years to examine and make recommendations concerning pay scales for top political and career executive positions, including the Governor.*

#### DEVELOPMENT OF A COMPETITIVE SALARY STRUCTURE

Although the Office of Administration conducts salary surveys and receives salary data from other jurisdictions on a periodic basis which reflect the need for adjustments to remain in a competitive position, Commonwealth pay ranges are generally believed to be out of line.

This is primarily caused by the inability of State pay ranges and salaries to be adjusted on an equitable and timely basis to remain consistent with the salary movement taking place in the standards which have been adopted for comparison purposes.

Although several general increases have been passed within the past few years, due to the time required to obtain approval, changes have occurred in the general labor market and Commonwealth salaries remain behind competitive salary levels.

In addition, since pay range and salary adjustments have not been readily responsive to labor market changes, extensive adjustments are normally required to bring them in line, often causing problems with the financing of the increases.

If the Commonwealth is to remain in a competitive position with regard to salaries, the leadership in the executive and legislative branches must place a high priority on new legislation and policies for improved salary administration or suffer the consequences in a lack of employee morale, motivation and productivity.

31. *The Office of Administration should develop appropriate standards for comparison purposes and apply the Guide Chart Profile system on a State-wide basis to assure that the salary structure changes sought by the administration have acceptable validity.*
32. *Selective salary surveys by the Office of Administration should compare Commonwealth salaries for benchmark positions with salaries paid for similar positions in other jurisdictions which have been adopted as the standards of comparison for this purpose by the Commonwealth of Pennsylvania.*
33. *A method of adjusting salary structure and pay ranges for the Commonwealth should be developed, based on findings in Recommendation 32 above. Such adjustments should reflect appropriate consideration of livings costs variations and changes in the competitive levels of salary structures, as well as the rate of progress planned to reach salary goals which have been determined and approved for the Commonwealth.*

#### ADMINISTRATION OF THE CLASSIFICATION PLAN

Currently, due to the day-to-day demands to deal with classification problems, the Bureau of Personnel in the Office of Administration cannot devote the necessary attention required to adequately maintain the classification plan. As a result, many class specifications included in the Commonwealth's classification plan are outdated and inconsistent with current employment requirements and changes in programs, work methods and related factors which influence position classification.

By requiring a greater sense of urgency and providing adequate trained manpower on the central staff, and by continuing and expanding the decentralization of classification authority to the operating agencies, the Office of Administration should be able to concentrate on the maintenance and development of the overall classification plan.

. An adequate post-audit program will provide the means of determining whether the operating agency can effectively administer this authority. If not, the decentralized authority for position classification should be withdrawn by the central agency until the program can be effectively administered.

Since a major problem associated with any position classification system was found to be and will continue to be the maintenance of the classification plan on a current basis, the Office of Administration should be adequately staffed with highly qualified position analysts who can give the required leadership, initiative and innovation in effective use of the classification system.

*34. The Office of Administration should devote more emphasis to the maintenance of the classification plan.*

*35. Responsibility for position classification should be decentralized as much as possible to the operating agencies under the surveillance and control of the Office of Administration.*

*36. Greater support should be provided the Bureau of Personnel in the Office of Administration to develop a highly trained and knowledgeable staff capable of providing the required leadership in position classification and pay administration.*

#### PAY INCREASES IN RECOGNITION OF PERFORMANCE

The present system of granting meritorious increases is primarily dependent on time-in-grade, rather than performance, due to the unwillingness of supervisory and management personnel to withhold salary increases for unacceptable performance. As a result, the system does not motivate outstanding performance and discriminates between the highly qualified and competent employees who produce a high standard of work and those whose performance is only acceptable or undeserving of additional compensation.

Provisions for within-grade increases, up to a certain level of each pay range, should be considered for all employees who have been rated by their supervisors, after appropriate review, as having provided satisfactory service. As a result, all employees who have performed work of creditable quality and whose performance warrants recognition and encouragement would receive standard periodic pay increases for that portion of the salary range which is to be reserved for such performance.



Another fund could be programmed to provide additional within grade increases in recognition of high quality performance above that normally expected from employees in the position. Under this provision, the policy and procedures devised should provide a definite means for supervisors to evaluate exceptional performance, and to recommend for review and approval, the award of special increases where the quality and output of work or other appropriate evidence warrants. In this way, outstanding employees would be encouraged and retained in the service and incentives would be provided for performance beyond that which is merely acceptable.

To administer the system, a special analysis and report in justification of the increase can be instituted. In addition, the utilization of these increases only for outstanding performance should help alleviate the inequities caused by overlapping pay rates.

The pay plan should also provide that the periodic pay increases, based on satisfactory performance be withheld from individuals whose performance is unsatisfactory until their performance reaches an acceptable level. If it does not reach that level, they should be separated. Any system that fails to cast up a small percentage of employees in this category reflects either a failure in the system or inadequate supervisors. Therefore, a target percentage of individuals denied salary increases could be established as a means to develop the administrative rules for this end of the spectrum. A recommendation for implementing the changes in the application of these suggestions is to maintain the present top step of each pay range as the limit of progression for satisfactory performance. Any new steps added in the future, as a result of structure changes, could be reserved for outstanding performance. Eventually, as the present top step moves down in the range, the limit of progression for satisfactory performance could be reduced to a desirable level.

*37. Develop a compensation plan to provide for several within-grade salary increases up to a certain level, based on satisfactory performance; and additional within-grade increases be granted only on the basis of outstanding performance.*

### III ADMINISTRATIVE SERVICES



## ADMINISTRATIVE SERVICES TASK FORCE MEMBERS

Dr. John H. Ferguson, *Chairman*

Charles S. Bowden  
Rep. Alvin C. Bush

R. Wayne Oates  
Dr. Albert C. VanDusen

## CONSULTANTS

William C. Austin  
Atlantic-Richfield Company

Robert Cheek  
Westinghouse Electric Corp.

J. Raymond Fleming  
Jones & Laughlin Steel Corp.

Joseph J. Gibbons  
Blaw-Knox Company

J. J. Paulos  
Jones & Laughlin Steel Corp.

P. L. Reinhard  
Alcoa

Dr. Howard M. Teaf, Jr.  
Haverford College

Harold F. vanGorder  
U. S. Steel

# The Recommendations

## ORGANIZATION FOR DATA PROCESSING AND TELECOMMUNICATIONS

1. We recommend that the responsibility for the planning, coordination, and staff control of the entire data processing and telecommunications functions be combined and centralized under the Bureau of Management Information Systems in the Office of Administration.
2. Using present data processing equipment and telecommunications facilities as a base, the Commonwealth should work toward the establishment of a computer based telecomputer network capable of furnishing data processing and communication services to all agencies and departments. Strategically located data processing centers should be established under the supervision of the Bureau of Management Information Systems to provide computer services on a time sharing basis to those agencies and departments unable to justify their own stand-alone equipment. Agencies and departments will have access to the data processing centers through their own input, output communication terminals which will be linked to the data processing centers via the Commonwealth's own telecommunication network.
3. The Bureau of Management Information Systems should develop the systems design concepts such as data base, data standards, programming language, applications, etc. that are necessary to establish a totally integrated management information system for the Commonwealth. The capital required for the data processing equipment should be included in the capital budget in accordance with the procedures recommended by this Committee in IV. Capital Improvements, Planning, and Budgeting.
4. The data processing equipment should be procured by the Department of Property and Supplies in accordance with the procedures recommended in I. Procurement. In acquiring the data processing equipment, the Department of Property and Supplies should exploit the potential savings available through the use of third party leasing arrangements.
5. The data processing operating net cost should be budgeted in the Office of Administration rather than the Department of Property and Supplies, as is presently the case. Agencies and departments will receive charges at cost from the Office of Administration on the basis of the data processing services rendered.

6. Establish central responsibility under the Bureau of Management Information Systems for the planning, management, and control of the entire telecommunications function. Telephone company representatives should be a part of this activity, but not responsible for it.
7. All independent teletype networks and teletype requirements should be carefully evaluated to determine the feasibility of establishing a single integrated computer-controlled facility, to be planned by and operated under the jurisdiction of the Bureau of Management Information Systems.
8. A study should be made of the Turnpike Authority's private microwave facility. This could be an economical source for obtaining high-speed data circuits between east and west locations of the State. Of particular interest is the potential offered through the new inter-connect tariffs recently announced by the Bell System which may permit private facilities (microwave) to connect to Bell System facilities.
9. A beginning should be made toward integrating all data communication operations, including time sharing, with the existing Telpak facilities. Particular emphasis should be directed at the possibility of using Common Control Switching Arrangement (CCSA) in the off hours and as an alternate voice-high speed data facility. Special attention and planning should be given to the requirements of the State Colleges in this area.
10. Cost reporting and control should be organized so that accurate records of total communication dollars being spent are maintained.
11. CCSA operation should be carefully analyzed and evaluated with particular emphasis on:
  - (a) Costs increase as a better grade of service is provided. The Commonwealth—not the telephone company—should determine the grade of service it requires—and can afford.
  - (b) Periodic and regular reviews should be made with the telephone company of the engineering results for the CCSA operation. Again, the emphasis is on circuit requirements as these vitally affect costs.
  - (c) The CCSA sample should be reviewed periodically. The sample identifies usage and is a valuable indicator of potential misuse. The sample for the Commonwealth can be particularly valuable as a large portion of their telephone users are served with Centrex C.O., which permits CCSA calls to be traced back directly to the individual station user.

12. The State Telecommunications Management should stay abreast of regulatory and legislative developments affecting communication and data activities. Full advantage should be taken of special sharing privileges afforded Municipal, State, and Federal Governments. Contacts should be established with other State telecommunications groups as well as professional communications organizations, so as to take advantage of new ideas in the field.

## PROCESSING OF VENDORS' PAYMENTS AND EMPLOYEES' EXPENSE ACCOUNTS

13. Modify the verification of vendors' invoices procedures regarding inspection.
14. Raise the limit on field limited purchase orders from \$100 to \$200 for the purchase of materials and supplies.
15. Retain all copies of field limited purchase orders, at least those involving sums up to \$200, at the issuing location until vendors' invoices are received. Transmit the orders at the same time the applicable invoices are transmitted for payment.
16. Retain all copies of miscellaneous orders for perishable food stuff at the originating point until the invoice is received, regardless of the dollar amount involved.
17. Require that all vendors' invoices possible be vouchered and transmitted at the end of each week. Investigate invoices on hand for one week for which receiving reports have not been submitted.
18. Arrange to detect and give attention to situations that result in delays in processing vendors' invoices.
19. Change the present requirements so that bids are required for all purchases of supplies and materials over \$50 rather than the present \$10 amount.
20. Prepare regulations to make the use of advancement accounts more uniform, and at least in some locations, more liberal.
21. Forward the original of the voucher transmittal to the Auditor General's Office immediately upon completion of the agency pre-audit. Use the duplicate copies to accommodate the agency accounting requirements.
22. Correct obvious errors on voucher transmittals in the Agency, process the papers for payment and notify the originating unit of the changes made. Handle disputes as separate matters without delaying payment of the total amount due.

23. Questions involving minor amounts of \$2 or less on vendors' payments should not be cause for rejecting or delaying payment. The cost of extra paper handling more than offsets any possible gain.
24. Appoint a task force to establish an efficient and well controlled system that is ready to operate if the Auditor General's Office is no longer involved in the pre-audit function, as prescribed by the new Constitution.
25. Amend the Administrative Code, Section 216, to permit per diem subsistence allowance for travel expenses.
26. Record some of the basic expense account regulations on the expense account form.
27. Require that all expense accounts possible be vouchered and transmitted by the end of each week. Investigate those on hand for a week for which vouchers have not been transmitted.
28. Adopt a more business-like review of expense accounts before they are returned to the originating unit because of minor rule infractions to determine whether such action is really warranted.
29. Questions involving minor amounts of \$2 or less on expense accounts should not be cause for rejecting or delaying payment. The cost of extra paper handling more than offsets any possible gain.
30. Correct any obvious errors on expense accounts in the agency, process the papers for payment and notify the originating unit of the changes made. Handle disputes as a separate matter without delaying payment of the total amount due.
31. Authorize the field offices to settle small expense accounts in "cash."
32. Establish procedures so that cash can be conveniently advanced for travel expenses, and revise the expense account regulations to modify the restrictive language.

#### STATE INSURANCE FUND AND INSURANCE PURCHASING

33. Provisions of the Act of September 28, 1965, P.L. 553, should be amended to apply to all Commonwealth agencies. Presently it applies only to agencies under the Governor's jurisdiction. It requires that the Department of Property and Supplies "shall receive, at least once every two fiscal years, a survey of all buildings, equipment, land, improvements connected with and comprising each State institution." Such reports are essential not only for planning and budgeting but also for the appraisal of insurable risk. Appropriate funding of this function also is recommended.

34. When initial surveys are completed, departments, agencies, and institutions should maintain perpetual inventories from which valuations for insurance purposes can readily be made.
35. The biennial reports should include not only estimates of the value of buildings, equipment, land, and improvements, but also the depreciated cost of major items of equipment not integral parts of buildings. Inventories of furniture, supplies, etc., should be valued by estimate.
36. A study should be made of the desirability and practicability of converting the State Insurance Fund into a true self-insurance fund, with excess-loss reinsurance. About ten states have been operating such funds with considerable success (e.g., Alabama, Kentucky, North Carolina, North Dakota, South Carolina, and Wisconsin. North Dakota also has a very successful Bonding Fund. Both North Dakota funds cover also political subdivision and school districts.) The study here recommended might also include bonding.
37. If the State Insurance Fund is retained in its present restricted and money-starved basis, claims procedures should be made explicit and simplified. Small claims should be made payable, under approved standards by the Secretary of Property and Supplies. Presently the payment of all claims requires the advance approval of the Governor, Auditor General, and State Treasurer.
38. Uniform practices should be followed by all Commonwealth departments, agencies, and institutions, whether proprietary, Special Fund, or General Fund. If the State Insurance Fund is retained, all Commonwealth departments, agencies, and institutions should be allowed to qualify for coverage.
39. Written procedures should be prepared and kept up-to-date which govern and explain how insurance matters are to be handled. Presently, there exists no conveniently available handbook.
40. For Commonwealth motor vehicles, bodily injury limits of liability should be increased to at least \$250/500,000. Property damage limits for State Police cars should be increased to \$100,000 and the minimum property damage liability for any vehicle should be increased to \$50,000.
41. It is recommended that consideration be given to the feasibility of placing insurance coverage for all Commonwealth vehicles in one blanket policy.
42. Consideration should be given to the separation of real estate and insurance functions in the Department of Property and Supplies and placing the management of each under its own director.



## MANAGEMENT CONSULTING CONTRACTS

43. When contract proposals are developed the operating agency should, at an early stage, submit to the Office of Administration review copies of those proposals which relate primarily to administrative organization and procedure. When other contract proposals are developed the Office of Administration should play the limited staff role of providing technical assistance upon request of the operating agency.
44. Guidelines for contract format, transmittal and bidding should be prepared by the Office of Administration in cooperation with representatives of operating agencies. A standard consulting contract, worked out with the Attorney General, is suggested. Circumstances under which bidding can be proprietary or competitive should be carefully delineated and examples given.
45. Contract pre-audits should be made through the agency comptroller for compliance with guidelines and for the availability of funds; through the Deputy Attorney General for legality; and through the Secretary of Administration for readiness for the Governor's signature.
46. A standard progression or routing sheet, with a required signature check-off list, should accompany each contract. The routing sheet should require dates for all signatures or initials, and target dates for action. A log should be kept in the Office of Administration which will show the whereabouts and status of each contract transmitted to that office. A log clerk should make constant checks to minimize delays.
47. Suitable forms should be prepared by the Office of Administration.
48. Reduce the number of official signatures required to activate a contract to the following:
  - Agency Head
  - Agency Comptroller
  - Agency Deputy Attorney General
  - Secretary of Administration and Budget Secretary
  - Governor
49. Require that a completed copy of each contract and consultant's report be filed with the Secretary of Administration to be used by his staff for information, coordinating activities, evaluation, and assistance with implementation.
50. As personnel availability permits, the Office of Administration should monitor compliance with contracts in excess of \$100,000.

## OFFICE SPACE PLANNING AND CONTROL

51. Responsibility for the planning and allocation of space needed for the performance of Commonwealth functions should be centered in the Office of Administration. Close liaison should be maintained with the State Planning Board and other agencies charged with responsibility for capital programming and budgeting.
52. Responsibility for the maintenance and procurement of space through lease, purchase, or construction should be centered in the Department of Property and Supplies.
53. A detailed five-year and a long range ten-year space plan should be developed and kept up-to-date.
54. Consideration should be given to decentralizing operating departments and agencies to locations outside the Harrisburg area.
55. Capitol grounds and buildings should, insofar as possible, be reserved for top executives, the legislature, and the judiciary.
56. When additional space is required consideration should first be given to procuring it through long-term leases rather than by capital expenditures.
57. The personnel charged with responsibility for space planning, allocation, and procurement should be placed under the merit system.
58. The space manual should be kept up-to-date and made readily available.
59. All existing laws, rules, regulations, and procedures relating to space should be codified and kept up-to-date.

## AUTOMOTIVE FLEET OPERATIONS

60. The General Fund passenger car fleet is too old to be operated economically. This has been brought about by the need to appropriate general revenues annually for the purchase of cars as contrasted with the special funds where annual appropriations are not needed. Funds should be appropriated to the Department of Property and Supplies in a sufficient amount to move toward reducing the age of the fleet markedly.
61. Cars should be ordered as early in the model year as is possible and deliveries should be scheduled as fast as practicable.
62. The time lapse between the request for new cars and delivery of the vehicles must be shortened. This is particularly critical in the case of

State Police cars where some vehicles must be used past their top operating condition due to failure to receive new replacements on schedule. This can result in a hazard to the police and the public.

63. The State's agreements with commercial concerns for maintenance services should be renegotiated each year to insure that the State is receiving the best possible services for the lowest possible prices.
64. The Commonwealth should discontinue stockpiling tires and accessories. Firm prices should be obtained annually from manufacturers and delivery taken as needed, perhaps by use of credit cards.
65. For normal maintenance no bids should be required provided work is done by concerns referred to in No. 63 (above). Where it is not feasible to utilize those under agreement and for those services other than normal maintenance, two bids for work in excess of \$50.00 is recommended. All State drivers should be alerted to those items covered by warranties.
66. The position of Director of the Automotive Bureau, and certain positions under his direction, particularly the automotive inspectors, should be placed under Civil Service.
67. Mileage records indicate that the use of the cars in the Harrisburg pool is not particularly high. A careful study should be made to determine if the pool should be reduced to a more efficient number, or eliminated.

# The Problems

A Task Force for Administrative Services was assigned the problem of determining which of the many functions of State government it should examine other than those concerned with capital expenditures, personnel management or procurement. It directed its attention to the following areas:

1. Data Processing and Telecommunications
2. Processing of Vendors' Payments and Employes' Expense Accounts
3. State Insurance Fund and Insurance Purchasing
4. Management Consulting Contracts
5. Office Space Planning and Control
6. Automotive Fleet Operations

Expert consultants were secured and assigned to work on each of the above, most of them coming from private industry where competition enforces an upgrading of efficiency in order to survive. Since the profit motive does not exist in government, it was felt desirable to avail ourselves of this help from industry despite the differences which, due to many circumstances, exist in government. A considerable amount of work was performed by the consultants both in Harrisburg and in certain State institutions and resulted in a number of recommended changes and improvements.

In the areas of automotive and insurance there was a certain cross-over between this group and the Procurement Task Force. The consultants of both task forces, where necessary, met and conferred regarding their findings.

The consultants worked and conferred with a considerable number of State employes in their examination of procedures, without whose excellent cooperation it would have been most difficult to achieve the results and determine the recommendations set forth. And it will, of course, require the cooperation of all State employes, from the agency head down, to implement the improvements recommended.

The Committee feels that implementation of the recommendations set forth in this report will considerably improve State services and lessen costs.

## DATA PROCESSING

Prior to the establishment of the Bureau of Management Information Systems in April 1967, computer facilities in the Commonwealth evolved on an individual jurisdictional basis, without central planning or coordination. It is not surprising that as a result seven independent and unrelated computer activities had developed in the various agencies by 1967, not including those at the State colleges. Some of these still appear to be relatively inefficiently used in terms of the number of scheduled shifts and the load hours per month.

The Director of the Bureau of Management Information Systems and his staff appear to be highly capable, technically and administratively, and are dedicated to the task of properly planning and coordinating the growth of data processing in the Commonwealth.

The report by the Planning Research Corporation entitled *Pennsylvania Interagency Management Information Support System (PIMISS)* has been reviewed. The result of a study commissioned by the Bureau of Management Information Systems, this report provides a sound basis for the coordination, interconnection, and integration of the Commonwealth's information processing facilities in the future.

A number of administrative directives on data processing were reviewed. One in particular, Administrative Directive No. 45, issued December 18, 1968, is a very comprehensive document concerning the acquisition of Automatic Data Processing equipment. It appears to establish sufficient control by the Bureau of Management Information Systems to insure against unjustified or uncoordinated proliferation of computers in the Commonwealth. It provides criteria for making a lease (from manufacturer) vs. purchase decision. However, it does not treat of various other lease acquisition methods, i.e., third-party leasing, especially so-called non-full-payout leasing.

To compare purchase options only with leasing direct from the manufacturer is inappropriate today. A large number of computer leasing companies, highly competitive with each other, have come into existence during the last few years. Literally dozens of such companies offer leases at from 10 to 50 per cent discount from suppliers' one-shift lease rates on commitments of from one to five years, not only on IBM equipment but on others as well. Such leases offer additional savings on equipment used for more than one shift per day, in that manufacturers normally charge overtime rates for equipment used in excess of one shift, whereas third-party lessors do not.



The personnel of the Bureau of Management Information Systems conveyed the impression that the possibilities of savings through such non-full-payout leasing arrangements have not been fully explored by the Commonwealth.

1. *The Committee recommends that the responsibility for the planning, coordination, and staff control of the entire data processing and telecommunications functions be combined and centralized under the Bureau of Management Information Systems in the Office of Administration.*
2. *Using present data processing equipment and telecommunications facilities as a base, the Commonwealth should work toward the establishment of a computer based telecomputer network capable of furnishing data processing and communication services to all agencies and departments. Strategically located data processing centers should be established under the supervision of the Bureau of Management Information Systems to provide computer services on a time sharing basis to those agencies and departments unable to justify their own stand-alone equipment. Agencies and departments will have access to the data processing centers through their own input, output communication terminals which will be linked to the data processing centers via the Commonwealth's own telecommunication network.*
3. *The Bureau of Management Information Systems should develop the systems design concepts such as data base, data standards, programming language, applications, etc. that are necessary to establish a totally integrated management information system for the Commonwealth. The capital required for the data processing equipment should be included in the capital budget in accordance with the procedures recommended by this Committee in IV. Capital Improvements Budgeting and Expenditures.*
4. *The data processing equipment should be procured by the Department of Property and Supplies in accordance with the procedures recommended in I. Procurement. In acquiring data processing equipment, the Department of Property and Supplies should exploit the potential savings available through the use of third party leasing arrangements.*



5. *The data processing operating net cost should be budgeted in the Office of Administration rather than the Department of Property and Supplies, as is presently the case. Agencies and departments will receive charges at cost from the Office of Administration on the basis of the data processing services rendered.*

## TELECOMMUNICATIONS

An initial meeting with the Director of the Bureau of Management Information Systems and various members of his staff pointed up problem areas involving lack of coordination, integrated planning, and communication between the data processing and telecommunications functions.

A subsequent meeting with this group and other Commonwealth representatives responsible for telecommunications, and the Bell System account representatives responsible for servicing the State's telecommunications activities was an informative, fact-finding session. It provided the diverse groups involved with timely and significant information regarding capabilities and plans with which they share a common and vital interest.

The investigation did not include visits to operating locations, evaluation of costs and accounting procedures, or detailed analysis of job functions. These and other meetings with those responsible for the telecommunications function form the basis for the findings.

The planning, design, engineering, and management of the telecommunications function was conducted primarily by Bell Telephone Company of Pennsylvania account representatives. They appear to be competent professionals dedicated to meeting the State's telecommunications requirements in an efficient and effective manner. They coordinate the activities through the Department of Property and Supplies.

There are a number of separate and basically independent networks serving the diverse communications requirements of the State:

- (a) Justice Department—a small 8-station teletype network.
- (b) State Police—a computer-controlled Data net 30 teletype network of 165 stations.
- (c) Civil Defense—a manual 80-station teletype system serving the dual function of administration and civil defense warning.

- (d) Turnpike Authority—a private microwave system used for radio, voice, and teletype.
- (e) Liquor Control Board—a small 6-station teletype network.
- (f) Commonwealth Telephone Network—a dedicated Common Control Switching Arrangement (CCSA) system serving 15,000 State telephones.
- (g) The nucleus of a time-sharing network that currently is growing in a relatively undirected fashion.

There appears to be fairly good control of telephone facilities procurement. These are ordered through Property and Supplies. The network operations appear to be autonomous. Little or no organized control is evident in the rapidly developing data communications area.

Costs are estimated at \$5 to \$6 million per year by the telephone company representatives. The Commonwealth representative did not verify this.

There is no consulting service furnished to State locations except through the Bell System.

The dedicated CCSA voice network is designed to meet the intra-communications requirements of all State activities and provides off-network capabilities to Harrisburg employees only. The Telephone Company representatives indicate that full advantage is being taken of Telpak rate structure for the various network and other dedicated line facilities.

The cost of the CCSA is allocated on a flat-rate basis (currently \$21 per telephone user per month) with no attempt to use the sample to determine usage. Grade of service is excellent and in most cases considerably better than most industrial network CCSA's.

Telephone company's planning for voice requirements appears comprehensive and timely. Little or no planning is evident for the transmission of data.

6. *Establish central responsibility under the Bureau of Management Information Systems for the planning, management, and control of the entire telecommunications function. Telephone company representatives should be a part of this activity, but not responsible for it.*

7. *All independent teletype networks and teletype requirements should be carefully evaluated to determine the feasibility of establishing a single integrated computer-controlled facility, to be planned by and operated under the jurisdiction of the Bureau of Management Information Systems.*
8. *A study should be made of the Turnpike Authority's private microwave facility. This could be an economical source for obtaining high-speed data circuits between east and west locations of the State. Of particular interest is the potential offered through the new inter-connect tariffs recently announced by the Bell System which may permit private facilities (microwave) to connect to Bell System facilities.*
9. *A beginning should be made toward integrating all data communication operations, including time sharing, with the existing Telpak facilities. Particular emphasis should be directed at the possibility of using Common Control Switching Arrangement (CCSA) in the off hours and as an alternate voice-high speed data facility. Special attention and planning should be given to the requirements of the State Colleges in this area.*
10. *Cost reporting and control should be organized so that accurate records of total communication dollars being spent are maintained.*
11. *CCSA operation should be carefully analyzed and evaluated with particular emphasis on:*
  - (a) *Costs increase as a better grade of service is provided. The Commonwealth—not the telephone company—should determine the grade of service it requires—and can afford.*
  - (b) *Periodic and regular reviews should be made with the telephone company of the engineering results for the CCSA operation. Again, the emphasis is on circuit requirements as these vitally affect costs.*
  - (c) *The CCSA sample should be reviewed periodically. The sample identifies usage and is a valuable indicator of potential misuse. The sample for the Commonwealth can be particularly valuable as a large portion of their telephone users are served with Centrex C.O., which permits CCSA calls to be traced back directly to the individual station user.*

12. *The State Telecommunications Management should stay abreast of regulatory and legislative developments affecting communication and data activities. Full advantage should be taken of special sharing privileges afforded Municipal, State, and Federal Governments. Contacts should be established with other State telecommunications groups as well as professional communications organizations, so as to take advantage of new ideas in the field.*

The recommendations offered by the Committee concerning data processing and telecommunications, if adopted, will provide Commonwealth executives with timely, accurate, and complete information for effective decision making in the most efficient and economical manner. At the present time, the Commonwealth is receiving many benefits that have a value considerably in excess of the \$15 to \$16 million that is being spent for the data processing and telecommunications functions. With proper planning and coordination the benefits can be greatly enhanced without corresponding increases in the cost of these functions. The benefits will be in the form of cost savings, costs avoided, and increased services to the citizens.

## PROCESSING VENDOR PAYMENTS

Field locations receive the invoice, verify its accuracy and verify the receipt of the material or service. For most field locations, such as for the Departments of Public Welfare and Education, the invoices are then grouped into voucher transmittals and forwarded to the agency in Harrisburg. For the Department of Highways, the field location prepares a Commonwealth invoice devised specifically for Department needs. The Commonwealth invoice may support several invoices from the same vendor. These invoices are sent to the agency in Harrisburg where the vouchering is done.

In the agency office, the vouchers are pre-audited for accuracy, processed through Data Processing for the agency's internal accounting requirements and then forwarded to the Auditor General. One copy of the voucher transmittal is filed with the Agency.

In the Auditor General's Department, the voucher transmittals are again audited and forwarded to the Treasurer for another audit. If in order, they are returned to the Auditor General for preparation of the warrant and posting to the spending control card. They are then sent to the Treasurer for preparation of the check, after which they are returned to the Auditor General for posting again to the spending control card and for filing.

Expense accounts follow basically the same routing. No receipt of material is involved but some detailed verification of spending is required to assure that the prescribed Commonwealth procedures are followed.

Vouchers prepared in the 1967-68 year totaled about 117,000 and checks written totaled 5,700,000. Probably half the checks covered payrolls but this total of checks utilizes a relatively few number of vouchers. Total checks written have been increasing at the rate of about 10 per cent per year.

The Public Welfare, Education and Highway Departments account for about 70 per cent of the 100,000 plus employes on the State payroll. Public Welfare and Education together accounted for about 75 per cent of General Fund spending for the 1967-68 period. Our reviews were concentrated in these areas.

Our estimate of the time requirements to process paper through the various stages of this system indicates that the following is probably typical. Generally, time requirements for processing expense accounts do not appear appreciably different from the time required to process vendor invoices.

	<u>Highway</u>	<u>Public Welfare, A Few Others</u>	<u>Education</u>
* Invoice date to voucher date (Note—for Highway Department this includes pre-audit time in agency) .....	20	19	30
Voucher date to pre-audit in agency .....		6.5	
Pre-audit date to received in A G Department .....		7.	
Total—voucher date to received in A G Department .....	6.	13.5	
Received in A G Department to forwarding to Treasury for payment .....	3.	3.	
Forwarding to Treasury by A G Department to payment due .....	4.5	4.5	
	33.5	40	51

\* This figure is probably conservative; invoices with long delays in vouchering were excluded from our reviews. For Education, the State Colleges account for the lengthy time lapse.



## INSPECTION

Many items that are purchased must be passed by an inspector from the Bureau of Standards before the invoice can be processed. The inspector visits various locations periodically, generally once a week, but at times there are interferences, such as holidays, which result in a greater time span between visits. Vendor invoices are kept on hand until the inspector arrives to prepare his report. We were advised that quite often this is a perfunctory task that involves transcribing information from the regular receiving report at the field location.

As a general rule, we feel that the receiving practices at the field location should be adequate verification to approve the invoice for payment. Possibly a larger fixed amount could be established, say \$1,000, to identify those particular items requiring formal inspection by the Bureau of Standards. But at any rate, it is not necessary to retain the invoice. When the inspector makes his normal visit any detected irregularity could be reported to the agency for deletion of that particular item on the voucher. Even under the most ideal processing conditions, ample time would be available to do this before payment is made. The risk would be very limited in eliminating this element of delay. However, a change in the regulations would be necessary to eliminate the inspector's report as a required document in the voucher file.

13. *The Commonwealth should modify the verification of vendors' invoices procedures regarding inspection.*

## FIELD LIMITED PURCHASE ORDERS

The processing of the field limited purchase order at times causes delays in servicing the vendors' invoices. This order is prepared at the field location and is authority to purchase contract and schedule items, supplies and materials not exceeding \$100, direct purchase of clothing not exceeding \$200, items from the Pennsylvania Industries for the Blind, and laboratory animals.

The purchase order is a seven part form. The field location sends the first copy directly to the vendor; copies 2, 3, 4 and 5 are forwarded to the agency in Harrisburg, and copies 6 and 7 are retained at the field location in a pending file. The agency copies go to the Comptroller; he retains his number 2 copy and sends copies 3, 4 and 5 to the agency Bureau of Procurement. If approved, the Bureau of Procurement stamps the copy number 3 "approved" and this is returned to the requesting unit. Copies 4 and 5 are forwarded to the Department of Property and Supplies.



The delay in processing invoices is due to the time required for the approved number 3 copy to be received by the field location. The invoice, which may be received from the vendor while the purchase order is being processed in Harrisburg, must be held up for payment until the number 3 copy (Auditor General's copy) of the order is returned.

We propose that all copies of the field limited purchase order, at least those up to an estimated amount of say \$200, be retained at the issuing location until the vendor's invoice is received. All copies of the order would be processed along with the invoice.

This proposal may be challenged because financial commitments are not recorded in the records. However, the procedure followed by the Highways Department is somewhat comparable to this proposal and is reportedly working well.

A large volume of Highway purchasing is handled on what is called an "emergency purchase request." This is a very informal form about the size of a check prepared in the field primarily for repair work on automobiles and equipment. The department Pre-Audit Supervisor estimates that 70 per cent of the number of purchases in that department are handled in this manner. As a result, they are not back-logged with filing and refiling small value purchase orders, and they experience no unusual difficulties as far as their financial status reports are concerned.

14. *The Committee recommends raising the limit on field limited purchase orders from \$100 to \$200 for the purchase of materials and supplies, and*
15. *Retaining all copies of field limited purchase orders, at least those involving sums up to \$200, at the issuing location until vendors' invoices are received. Transmit the orders at the same time the applicable invoices are transmitted for payment.*

#### MISCELLANEOUS ORDER FOR PERISHABLE FOODSTUFFS

The Commonwealth also uses a miscellaneous order to procure certain items of perishable foodstuffs, livestock feed, subscriptions to periodicals, textbooks, etc. For certain items, the original copy of the purchase order can be mailed directly to the vendor by the originating unit, but in other cases the vendor copy of the purchase order is mailed by the agency Bureau of Procurement. For the purchases of perishable foodstuffs the order is mailed to the vendor by the field office. We recommend that copies of these orders be retained at the originating point

regardless of the dollar amount until the invoice is received. We were advised that some food vendors have refused to submit bids because of the time required to pay the invoice, and the delay is attributed to failure to timely process the purchase order in Harrisburg.

16. *All copies of miscellaneous orders for perishable food stuff should be retained at the originating point until the invoice is received, regardless of the dollar amount involved.*

#### NUMBER OF ENTRIES ON A VOUCHER

There may be a tendency to delay vouchering in order to hold down the number of voucher transmittals prepared. This form, with double spacing, will conveniently accommodate 20 entries, and many that we looked at were completely filled or nearly so. It may be advisable to require that all invoices possible should be vouchered at the end of each week, and that at the same time, any invoices on hand for one week for which receiving reports have not yet been submitted should be investigated.

17. *Require that all vendors' invoices possible be vouchered and transmitted at the end of each week. Investigate invoices on hand for one week for which receiving reports have not been submitted.*

#### WORKLOAD AT CERTAIN FIELD LOCATIONS

Field units may fall behind in processing invoices because they are unable to keep up with the workload for one reason or another. The appropriate agency in Harrisburg should be geared to detect and give attention to these situations. The average age of a backlog of 60 invoices at one location was 62 days.

18. *Procedures should be established to detect and give attention to situations that result in delays in processing vendors' invoices.*

#### BIDS

Requirements for receiving bids should be more lenient. At present bids are required for all purchases of supplies and materials over \$10.

19. *Change the present requirements so that bids are required for all purchases and materials over \$50 rather than the present \$10 amount.*

#### CASH DISBURSEMENTS

Uncertainty exists regarding authority to settle small amounts in cash. At one location, the maximum authorized was thought to be \$2. Regulations should be prepared to make the use of advancement accounts more uniform and possibly more liberal.

20. *Make the use of advancement accounts more uniform, and at least in some locations, more liberal.*

#### DELAY IN FORWARDING VOUCHERS FOR PAYMENT

After the agency pre-audit is completed, the original of the voucher transmittal is filed until the copy of the voucher transmittal has been processed to satisfy accounting requirements. The original is then forwarded to the Auditor General.

We believe the original should be forwarded to the Auditor General promptly upon completion of the pre-audit function. This should save about seven (7) days processing time.

No risk is created of spending beyond the appropriation since this control is maintained in the Auditor General's office. However, the agencies are concerned about activity or program spending, and the Comptroller must assure that excess spending does not result in these areas. This is why the original of the voucher transmittal is retained at the agency. However, excess spending should occur only in the latter part of the fiscal year, and it should not be a common occurrence. It should not be necessary to impose a seven (7) day delay on all invoices to acquire this protection.

If a deficiency in available program funds is detected in the agency after the original voucher has been forwarded for payment, there may be time to delete the item or items in question from the voucher before the check is prepared. But, even if such checks are prepared, they can easily be voided in the agency and processed for appropriate entry in the financial records.

21. *Forward the original of the voucher transmittal to the Auditor General's Office immediately upon completion of the agency pre-audit. Use the duplicate copies to accommodate the agency accounting requirements.*

#### OBVIOUS ERRORS

Any obvious errors should be corrected in the agency, the papers processed for payment and the originating unit so notified. Disputes can be handled as a separate matter without delaying payment for the total amount.

22. *Correct obvious errors on voucher transmittals in the agency, process the papers for payment and notify the originating unit of the changes made. Handle disputes as separate matters without delaying payment of the total amount due.*

## SMALL QUESTIONABLE ITEMS

23. *Questions involving minor amounts of \$2 or less on vendors' payments should not be cause for rejecting or delaying payment. The cost of extra paper handling more than offsets any possible gain.*

## PROCESSING INVOICES—AUDITOR GENERAL AND TREASURY

The departments of the Auditor General and the Treasury process invoices and prepare checks in about seven days, but there is an unnecessary shuffling of paper between the two departments. Vouchers go to the Auditor General's Department where they are pre-audited and forwarded to the Treasury Department for another audit. (The Treasury Department apparently is interested primarily in verifying that the name and amount on the voucher transmittal coincides with the supporting invoices.) The voucher then goes back to the Auditor General for posting to the spending control card and for preparation of the warrant, is returned to the Treasury Department for preparation of the checks and then is returned to the Auditor General's office for a second posting and filing.

Checks are picked up each morning at 11:00 A.M. by messengers from the various agencies. Each agency posts the warrant number and check numbers to its file copy of the voucher, notifies the originator of the voucher that payment has been made through use of the disbursement notice and mails checks to the vendors.

The new Constitution Amendments apparently prescribe a change to this phase of the processing cycle. Section 1 of Article VIII, to take effect as soon as possible but no later than July 1, 1970, says "any Commonwealth officer whose approval is necessary for any transaction relative to the financial affairs of the Commonwealth shall not be charged with the function of auditing that transaction after its occurrence." This may remove the pre-audit function from the Auditor General's office. Proper implementing will streamline this phase of the processing cycle and should save two or three days.

Vouchers will go directly to the Treasury Department for final audit and payment. New Data Processing procedures with appropriate input controls would be necessary to provide the controls now inherent in the Auditor General's spending control card system and warrant system. Work should commence promptly to assure that an efficient and well controlled system is ready to operate when the time comes.

24. *Appoint a task force to establish an efficient and well controlled system that is ready to operate if the Auditor General's office is no longer involved in the pre-audit function, as prescribed by the new constitution.*

## EXPENSE ACCOUNTS

Processing expense accounts is a time consuming job, and in some respects, it will be difficult to eliminate some of the major problems. Individuals who occasionally have need to utilize expense accounts are not inclined to digest the numerous details contained in the expense account regulations.

### PER DIEM RATE

We were advised that a per diem rate is being considered for meals and lodging. If this could be equitably established on an easily administered basis, much would be done to simplify processing expense accounts. We recommend that Section 216 of the Administrative Code be amended to permit per diem rates.

25. *Amend the Administrative Code, Section 216, to permit per diem subsistence allowance for travel expenses.*

### REGULATIONS ON EXPENSE ACCOUNT FORM

Recording some of the basic regulations on the expense account form should be helpful to the occasional user and should eliminate some of the oversights that result in extra paper handling and additional delay.

26. *Record some of the basic expense account regulations on the expense account form.*

### FREQUENCY OF PREPARING VOUCHERS

There may be a tendency to delay preparing a voucher transmittal until all the expense accounts are in. Possibly an arrangement similar to that recommended on vendors' invoices would be applicable to expense accounts, that is, that everything possible be vouchered at the end of each week.

27. *Require that all expense accounts possible be vouchered and transmitted by the end of each week. Investigate those on hand for a week for which vouchers have not been transmitted.*



MINOR IRREGULARITIES OR QUESTIONS

At times we seem to bend over backwards to find a reason to reject expense accounts at the agency level and return them to the originating point. For example, expense accounts, even though two approvals already appear, are returned if the individual's signature at the bottom differs from the way his name appears at the top—as John D. Smith vs. J. D. Smith. A more business-like review should be made before documents are returned to determine whether such action is warranted.

Questions involving minor amounts of \$2 or less should not be cause for rejecting or delaying payment. The cost of extra paper handling more than offsets any possible gain.

- 28. Adopt a more business-like review of expense accounts before they are returned to the originating unit because of minor rule infractions to determine whether such action is really warranted.*
- 29. Questions involving minor amounts of \$2 or less on expense accounts should not be cause for rejecting or delaying payment. The cost of extra paper handling more than offsets any possible gain.*

OBVIOUS ERRORS

Obvious errors should be corrected in the agency, the papers processed for payment and the originating unit so notified. Disputes can be handled as a separate matter without delaying payment of the total amount due the employee.

- 30. Correct obvious errors on expense accounts in the agency, process the papers for payment and notify the originating unit of the changes made. Handle disputes as a separate matter without delaying payment of the total amount due.*

SMALL EXPENSE ACCOUNTS

Authority to settle small expense accounts at the field office in cash would expeditiously handle many relatively minor items. A \$25 limit could be established, but even a \$10 limit would be helpful.

- 31. Authorize the field offices to settle small expense accounts in "cash."*

CASH ADVANCES

Although the expense account regulations permit cash advances to be made, this practice is obviously discouraged. The regulations say "cash advancements may be made . . . when anticipated expenses . . .



are unusually large with respect to the normal travel required . . . and would constitute an undue financial hardship." A more equitable approach would be to permit cash advances if the month's expenses are expected to exceed a certain amount, perhaps \$50. Special regulations for users of cash advances seem unwarranted such as the mandatory use of Transportation Orders and the special emphasis on using Hotel Orders.

32. *Establish procedures so that cash can be conveniently advanced for travel expenses, and revise the expense account regulations to modify the restrictive language.*

## STATE INSURANCE FUND

This Fund was established by a 1915 statute "for the rebuilding, restoration, and replacement of any structures, buildings, equipment, or other property, owned by the Commonwealth of Pennsylvania, and damaged or destroyed by fire or other casualty . . ." (Act of May 14, 1915, P.L. 425). Income to the Fund originally came from one-half of premium taxes paid by out-of-state fire insurance companies, payments made by insurance companies for loss or damage to State-owned property (chiefly motor vehicle damages), and interest on deposits and on securities of the Fund itself and of the Fire Insurance Tax Fund. Income is no longer received directly from the premium-tax source, but interest on the Fire Insurance Tax Fund still comes to the State Insurance Fund. The only direct appropriation to the Fund was \$1,000,000 in 1953. The State Treasurer is custodian of the Fund.

Of the \$1,000,000 appropriation, only \$300,000 had been drawn on by 1968, partly a matter of fiscal economy, and partly because of the provision that the Fund should not at any time exceed \$1,000,000. The remaining \$700,000 lapsed as of June 30, 1968, and a bill to reappropriate the \$700,000 was not passed. Hence there is no income available to the Fund to cover major loss except moneys from claim recoveries and from interest on deposits and securities.

Charges against the Fund must be approved by the Auditor General, the State Treasurer and the Governor, upon recommendation of the Department of Property and Supplies, to whom claims and estimates of replacement are originally submitted.

Since at least 1936, application of the Fund's benefit provisions has been limited to agencies of the Commonwealth operating in its sovereign

capacity—that is, agencies operating as proprietary enterprises have been excluded. This exclusion applies to the Liquor Control Board, the Turnpike Commission, State Authorities, the Workmen's Compensation Fund. By a 1967 administrative decision of the Secretary of Administration, the State Game Commission and, by extension, all such agencies which do not receive appropriations from the General Fund were also excluded.

The Secretary of Property and Supplies, fortified by an opinion from the Attorney General, sought unsuccessfully to secure a reversal of this denial of a claim by the Secretary of Administration. The Secretary's reason was that the Game Commission, which does not receive funds from general tax sources, should not receive them indirectly through the State Insurance Fund. It must be noted that the State Insurance Fund itself does not receive funds from general tax sources through the General Fund. The Insurance Fund's receipts from the General Fund on its original appropriation have long since been used, and the remaining balance of the original appropriation was lapsed in 1968. For many years the Insurance Fund's meager resources have derived from interest income and property damage claims.

Statements of the Fund balance as of September 30, 1968 and of income and expenditures from July 1, 1965 to June 30, 1968 are shown in the Appendix. At the level of recent charges of \$109,000 against the Fund, its \$293,000 balance and intake rate of \$132,000 appear on the surface to be adequate. But set against the total amount of risk, even with the excess-loss insurance recently instituted on a few buildings, it is obviously greatly inadequate. In recent years there have been losses larger than the Fund could handle, in which cases replacement was covered by a regular budgetary expenditure or mainly, by new construction by the General State Authority.

The State Insurance Fund is only a feeble stand-in for an insurance device. Its revenue bears no relation, conceptually or in amount, to the values at risk, so only relatively small claims can be accepted and approved.

In spite of the inadequacies of the Fund, the Committee cannot agree with the highly but not systematically selective insurance of the Capitol-group buildings. The conditions under which it was determined to purchase this insurance for the first time on only these few buildings for a three-year term with no prospect of budgetary provision for re-

newal, reflect the absence of a well-founded basic policy determination. This aspect of the State's insurance program should be given careful and explicit attention, possibly by the Executive Board, and long-range insurance and budgetary policy established.

Administrative Code Section 508 (b) formerly required that the Department of Property and Supplies make every two years a survey of all the properties "of each State institution." No such survey ever was made. The Department was never given funds though it made repeated requests. The last formal survey and evaluation of all State-owned property was made in the mid-Twenties by Main and Company, as part of a State audit. No copy of this "inventory" or even a summary of it is now available.

In 1965 this section was revised by the Act of September 28, P.L. 553 to read as follows:

- (b) The Department of Property and Supplies shall receive, at least once every two fiscal years, a survey of all buildings, equipment, land, improvements connected with and comprising each State institution. This survey shall be conducted by the various administrative departments, independent administrative boards and commissions and other State agencies under the Governor's jurisdiction. After making any survey, the administrative departments, independent administrative boards and commissions and other State agencies under the Governor's jurisdiction shall prepare a report, setting forth in detail the results of the survey, including the needs of such institution, with respect to the maintenance of, and repairs, improvements, alterations and additions to its buildings, land, and equipment. The administrative departments, independent administrative boards and commissions and other State agencies under the Governor's jurisdiction shall file a copy of such report with the Department of Property and Supplies who shall compile all the reports and submit the compilation to the Governor. Such reports shall be used, so far as practical, as a guide for formulating the biennial budgetary requests for appropriations for the maintenance of, and repairs, improvements, alterations, and additions to, the buildings, lands, and equipment of State institutions.

33. *Provisions of the Act of September 28, 1965, P.L. 553, should be amended to apply to all Commonwealth agencies. Presently it applies only to agencies under the Governor's jurisdiction. It re-*

quires that the Department of Property and Supplies "shall receive, at least once every two fiscal years, a survey of all buildings, equipment, land, improvements connected with and comprising each State institution." Such reports are essential not only for planning and budgeting but also for the appraisal of insurable risk. Appropriate funding of this function also is recommended.

34. When initial surveys are completed departments, agencies and institutions should maintain perpetual inventories from which valuations for insurance purposes can readily be made.
35. The biennial reports should include not only estimates of the value of buildings, equipment, land, and improvements, but also the depreciated cost of major items of equipment not integral parts of buildings. Inventories of furniture, supplies, etc., should be valued by estimate.
36. A study should be made of the desirability and practicability of converting the State Insurance Fund into a true self-insurance fund, with excess-loss reinsurance. About ten states have been operating such funds with considerable success (e.g., Alabama, Kentucky, North Carolina, North Dakota, South Carolina, and Wisconsin. North Dakota also has a very successful Bonding Fund. Both North Dakota funds cover also political subdivision and school districts.) The study here recommended might also include bonding.
37. If the State Insurance Fund is retained in its present restricted and money-starved basis, claims procedures should be made explicit and simplified. Small claims should be made payable, under approved standards by the Secretary of Property and Supplies. Presently the payment of all claims requires the advance approval of the Governor, Auditor General and State Treasurer.
38. Uniform practices should be followed by all Commonwealth departments, agencies, and institutions, whether proprietary, Special Fund or General Fund. If the State Insurance Fund is retained, all Commonwealth departments, agencies, and institutions should be allowed to qualify for coverage.

## INSURANCE PURCHASING

When the State Insurance Fund was established, the purpose of insurance by or in behalf of State departments and agencies was, in gen-



eral, prohibited. Exceptions made then or subsequently by statute were: surety bonds, insurance against loss or theft of currency, checks, tax stamps, etc. by the Department of Revenue and of cash or securities by the Treasury Department; automobile liability insurance; public liability of all State employes, and group life on State employes.

It may be significant that Section 2404 of the Administrative Code provides "That if and when the Commonwealth shall establish its own indemnity fund, such bonds shall be purchased only in such cases as the Executive Board may require."

All insurance must be purchased for the various departments and agencies through the Department of Property and Supplies. By a 1965 statute, the Secretary of Property and Supplies was denominated, *ex officio*, as insurance broker of record for the Commonwealth. The Administrative Code also mandates in Section 2404 (1) as amended in 1965 that commissions on insurance policies shall be paid into the Higher Education Assistance Fund.

The Director of the Bureau of Real Estate and Insurance serves as deputy or surrogate for the Secretary of Property and Supplies in the latter's statutory capacity as broker of record for the State. The present Director of the Bureau is, in his own right, a licensed insurance broker and licensed real estate broker, and these qualifications are now included in the job description.

Insurance of all types and for all departments is purchased by a bidding procedure. Specification of the nature and amounts of coverage are issued with the invitation, where appropriate, for proposals to improve the coverage by restatement of policy terms. Bid invitations specify that the bids should be based on a broker commission rate of ten per cent. Recommendations of insurers for improvement of the coverage are made the subject of negotiation.

Upon completion of the purchasing process, the bills are sent to the Comptroller of the agency concerned or the Comptroller of the Department of Property and Supplies who draws vouchers against the accounts of the departments among whom the insurance coverage is divided.

During the calendar years 1967 and 1968, commissions of \$180,753 and \$95,208 were paid into the Higher Education Assistance Fund.

Within the past few years several "new" coverages have been purchased, principally for excess-loss fire and extended cover on buildings

in the Capitol group, the inclusion of all State employees in a public liability policy and group life insurance for all State employees. The fire and extended cover was written in 1967 for three years, the premium being met out of unexpended funds at the end of a fiscal year. The Capitol is covered for \$40 million, and 12 other buildings in the so-called Capitol complex or group are covered for various amounts up to \$14,000,000, contents included. All of these are written with a \$100,000 deductible.

The preparation of specifications and the negotiation of special terms of coverage and adequate amounts in some cases requires considerable knowledge and experience in the property and casualty insurance field. For example, in the special and very large requirements of the Liquor Control Board (liquor stocks in warehouses and stores) and the Turnpike Commission (tunnels and bridges).

Recent important basic improvements in the administration of insurance purchases include the appointment of a licensed insurance broker as Director of the Bureau of Real Estate and Insurance; the "recapture" of commissions on insurance purchases and channeling them into the Higher Education Assistance Fund, and the coverage of all State employees under public liability and group life insurance policies.

The blanket coverage of some 20,000 vehicles in agencies under the Governor's jurisdiction is presently in Travelers Insurance Company, placed through its regional office at Reading. The premium rates are very low. For example, the State police cars are insured for both bodily injury and property damage liability for \$34.29 per car for the first year of coverage and slightly lower costs for the second policy year.

The premium rates for the blanket policy are lower than those in effect for the General State Authority and the Turnpike Commission. Some of this difference may be attributable to greater immunity for vehicles under the Governor's jurisdiction than might apply to agencies engaged in proprietary functions. It is recommended that consideration be given to the feasibility of placing insurance coverage for all Commonwealth vehicles in one blanket policy.

The limits of liability in the blanket policy are \$100,000 for bodily injury to one person and \$300,000 for bodily injury involving one accident. The property damage liability limits are \$100,000 for Highway Department vehicles, \$50,000 for State Police and Liquor Control Commission vehicles and \$25,000 for vehicles of other departments. It is



recommended that bodily injury limits of liability be increased to at least \$250/500,000; that property damage limits for State Police cars be increased to \$100,000 and that the minimum property damage liability for any vehicle be increased to \$50,000.

Although the Real Estate and Insurance activities are being adequately and competently handled, it is recommended that in the long-range planning consideration be given to the advisability of having a Director of Real Estate to handle the 3,500 parcels under jurisdiction of the Commonwealth and a Director of Insurance to handle the many problems of insurance administration.

39. *Written procedures should be prepared and kept up-to-date which govern and explain how insurance matters are to be handled. Presently, there exists no conveniently available handbook.*
40. *For Commonwealth motor vehicles, bodily injury limits of liability should be increased to at least \$250/500,000. Property damage limits for State Police cars should be increased to \$100,000 and the minimum property damage liability for any vehicle should be increased to \$50,000.*
41. *It is recommended that consideration be given to the feasibility of placing insurance coverage for all Commonwealth vehicles in one blanket policy.*
42. *Consideration should be given to the separation of real estate and insurance functions in the Department of Property and Supplies and placing the management of each under its own director.*

## MANAGEMENT CONSULTING CONTRACTS

### References:

- (A) Executive Directive #10, March 6, 1967/S/Shafer
- (B) Administrative Directive #5, March 6, 1967/S/Sampson
- (C) Administrative Directive #47, January 20, 1969/S/Sampson
- (D) Policy on Use of Consultants in State Government. RM 240, December 1968, Council of State Governments, Chicago, Illinois
- (E) Consultants Status Report, January 31, 1969, Bureau of Management Systems Analysis, Commonwealth of Pennsylvania

(See Appendix for copies of (A), (B), (C) above.)

For the past decade, Commonwealth Administrators have become increasingly dependent upon consultants to provide studies and solutions of complex problems. The studies have taken many forms—in the fields of program evaluation, methods and procedural analyses, computer installation and programming, statistical measurements and space control. In most cases the programs were to evaluate, supplement or perform work which could not be handled by Commonwealth personnel. Sometimes it meant purchasing a personal expertise that was beyond their immediate experience. At other times opinions and evaluations of work already performed were provided by specialists.

It is not the aim of this report to discuss whether these hirings were necessary or desirable or to measure results attained. It is assumed that, in almost all cases, the employment of consultants by the Commonwealth was a productive procedure at the time the problem to be studied arose. What is presently apparent, however, is that an inordinate amount of time elapses between the inception of the idea that a consultant is needed and the final signature on a contract putting him to work. The reasons for this lag, which can run as much as one year, will be explored in the body of this study. Once a problem is recognized as being of sufficient importance to require outside attention and advice, the need for a solution is probably immediate. As that solution is delayed, operational efficiency may become increasingly unlikely, and the recommendations, when given, may not match the original problem. Thus, the delay may represent a cost out of all proportion to the original proposed consulting fee.

What is happening today in the placing of consulting contracts which causes this delay and what changes can be made, procedurally, to speed their processing?

Usage of the authorities and guidelines laid down in references (A), (B), and (C), have created three avenues now in use through which all types of consulting services are being procured in the Commonwealth.

- (a) By Agency Heads working through the Bureau of Management Systems Analysis and the Governor's Office to finalize contracts for "Management Engineering, systems analysis, procedures, EDP, organizational patterns" and similar techniques (Basis: Ref. C).

(b) Alone by Agency Heads when consultants are to assist with Departmental Programs or provide individual specialties or maintenance services (Basis: Ref. B, now superseded by Ref. C).

(c) By the decision of Agency Heads to make the procurement a "blue back" in order that it may be processed through the Governor's Office to clear any doubts as to the legality and propriety of the employment (Basis: Administrative Code 507-C, Para. 4).

(In practice, the existence of these three methods and their present application have confused both Agency personnel and bidding consultants alike. Since Method (a), above, is mandatory for all management engineering work, broadly interpreted it can find its way into almost all consulting proposals. Loosely viewed, with Program as the deciding factor, only the most rigid engineering disciplines need involve the Governor's Office.)

(d) Reference (C) was issued in January 1969 by the Secretary of Administration and Budget Secretary during the period of this study. Its purpose was to expedite paperwork and directed that all management engineering consulting be funneled through the Bureau of Management Systems Analysis, Office of Administration. At the same time, the Bureau updated its controls by instituting a new Consultant Status Report, Ref. (E), and assigned additional analysts to contracts under consideration. The practical effect of these actions was to reinforce a rigidly centralized control of consulting work through the Bureau of Management Systems Analysis and greatly weaken the authority of the Agency Head to solve his problem through outside sources of his own choosing.

(e) Reference (B) excluded "consultants used to evaluate the effectiveness of programs such as educational achievements and parole effectiveness" from its control. As Ref. (C), which superseded Ref. (B), makes no reference to this type of program consulting, it is being assumed, in most agencies, that Ref. (C) now governs all consulting work and all proposals must have either a pre-audit through Systems Analysis or an Office of Administration approval as a finalized "blue back" or both.

The constraints established by Ref. (C) upon an Agency Head are many:

The Office of Administration, originally established as an assisting staff function, now has within its power to:

- (a) Prevent a study entirely by determining that the services can be performed by Office of Administration personnel or other Commonwealth employees.
- (b) Assign personnel from the Office of Administration to do the work.
- (c) Formulate specifications with the Agency, thereby influencing the work required.
- (d) Suggest qualified consultants and competitive bidding. While these aims are commendable, the control of bidders' lists is recognized as a powerful tool toward award.
- (e) Evaluate bidding proposals and further influence award.
- (f) Through periodic progress meetings, monitor the course of a study and formulate opinions toward future awards.

#### COMPARATIVE SPANS OF CONTROL

In addition to the above control restraints placed upon consulting proposals by the Bureau of Management Systems Analysis, it is interesting to compare Pennsylvania's approval procedures with the other forty-nine States. According to Ref. (D), final approvals for this type of contract are as follows:

25 States—Hiring Agency only.

3 States—Hiring Agency and Personnel Agency.

8 States—Hiring Agency and Budget Agency

8 States—Hiring Agency and one approval other than Budget.

3 States—Hiring Agency and two approvals other than Budget.

2 States—Hiring Agency and three approvals other than Budget.

1 State —Pennsylvania, which requires three Hiring Agency clearances, comptroller (OA), budget analyst (OA), and Deputy or Secretary; in the Governor's Office, Systems Analysis (OA), Budget (OA), Personnel Director (OA), Comptroller (OA), Secretary of Administration (OA), Attorney General, and Governor. (Only 1 other state requires the Governor's signature.)

Thus, to comply with all the provisions of Ref. (C) and other Office of Administration directives, upwards of seven separate staff approvals must be obtained (not counting Hiring Agency heads, legal opinions, or the Governor's signature), to formalize a contract of this type.

An inspection of such dates and date stampings as are available on some seventy-five contracts and following discussions with comptrollers and Agency officials reveal the following:

Contracts processed Intra-Agency for Departmental consulting under Ref. (B) 1968-15 to 120 days, Average-30 days.

Contracts processed through the Governor's Office under Ref. (B) and Ref. (C), 1968-69-30 to 360 days. Average-75 Days.

The Commonwealth's contractual processing procedures for the employment of outside consulting services results in confusion in Departmental areas and overcontrol by the Office of Administration. The net result is delay and a loss of management efficiency in the solution of critical program problems.

*43. When contract proposals are developed, the operating agency should, at an early stage, submit to the Office of Administration review copies of those proposals which relate primarily to administrative organization and procedure. When other contract proposals are developed the Office of Administration should play the limited staff role of providing technical assistance upon request of the operating agency.*

*44. Guidelines for contract format, transmittal and bidding should be prepared by the Office of Administration in cooperation with representatives of operating agencies. A standard consulting contract, worked out with the Attorney General, is suggested. Circumstances under which bidding can be proprietary or competitive should be carefully delineated and examples given.*

*45. Contract pre-audits should be made through the agency comptroller for compliance with guidelines and for the availability of funds; through the Deputy Attorney General for legality, and through the Secretary of Administration and Budget Secretary for readiness for the Governor's signature.*



46. *A standard progression or routing sheet, with a required signature checkoff list, should accompany each contract. The routing sheet should require dates for all signatures or initials and target dates for action. A log should be kept in the Office of Administration which will show the whereabouts and status of each contract transmitted to that office. A log clerk should make constant checks to minimize delays.*
47. *Suitable forms should be prepared by the Office of Administration.*
48. *Reduce the number of official signatures required to activate a contract to the following:*
- Agency Head*
- Agency Comptroller*
- Agency Deputy Attorney General*
- Secretary of Administration and Budget Secretary*
- Governor*
49. *Require that a completed copy of each contract and consultant report be filed with the Secretary of Administration to be used by his staff for information, coordinating activities, evaluation, and assistance with implementation.*
50. *As personnel availability permits, the Office of Administration should monitor compliance with contracts in excess of \$100,000.*

## OFFICE SPACE PLANNING AND CONTROL

The standards of office layout currently used by the Bureau of Space and Facilities Planning, Department of Property and Supplies, are adequate and need no further updating at this time. The administrative effectiveness of this Bureau is limited by political considerations, fragmented authority, legislative acts, etc. It is extremely important, in view of the continual expansion of governmental services at all levels, that an attempt be made to streamline the administrative practices of this function.



Although the Governor has general responsibility for space planning and allocation, administrative assignments are widely scattered. The focus of responsibility rests in the Department of Property and Supplies, although capital programming is centered in the State Planning Board and capital budgeting in the Office of Administration. The Department of Property and Supplies also has responsibility for the procurement of space, although most construction is done through the General State Authority. Experience indicates that it is difficult, and often impossible, for an agency like the Department of Property and Supplies, whose hierarchical position is parallel with that of other executive departments and agencies, to provide the leadership and control necessary for the best administration of space planning and allocation. Centralization at a higher level appears to be essential.

51. *Responsibility for the planning and allocation of space needed for the performance of Commonwealth functions should be centered in the Office of Administration. Close liaison should be maintained with the State Planning Board and other agencies charged with responsibility for capital programming and budgeting.*
52. *Responsibility for the maintenance and procurement of space through lease, purchase, or construction should be centered in the Department of Property and Supplies.*
53. *A detailed five-year and a long range ten-year space plan should be developed and kept up-to-date.*
54. *Consideration should be given to decentralizing operating departments and agencies to locations outside the Harrisburg area.*
55. *Capitol grounds and buildings should, insofar as possible, be reserved for top executives, the legislature and the judiciary.*
56. *When additional space is required, consideration should first be given to procuring it through long-term leases rather than by capital expenditures.*
57. *The personnel charged with responsibility for space planning, allocation, and procurement should be placed under the merit system.*

58. *The space manual should be kept up-to-date and made readily available.*
59. *All existing laws, rules, regulations and procedures relating to space should be codified and kept up-to-date.*

## AUTOMOTIVE FLEET OPERATIONS

It is difficult to make broad generalizations about the State's automotive fleet program because of its complex nature. There are some 33 Commonwealth agencies participating in the automotive program. Because of the extent of this project, very little was attempted with regard to commercial vehicles (trucks, tractors, buses, ambulances and other specialized equipment) and the Highway Department was excluded completely.

The Committee first interviewed the Director of the Automotive Bureau of Property and Supplies who administers the State's automotive fleet program, then as many automotive officers as possible. Interviews were held with the automotive officers of the following agencies: Department of Property and Supplies, Department of Health, Public Utility Commission, State Police, Fish Commission, Liquor Control Board, and Department of Public Welfare.

The primary questions were:

1. What are your duties as automotive officer? Do you have other responsibilities?
2. How do you determine who is qualified to be assigned a State-owned vehicle?
3. What groups of people in your department drive State cars and what use do they make of them?
4. What records do you keep of State-owned vehicles? (Copies of local forms were obtained when available.)
5. How are you billed for expenses incurred in operating State vehicles?
6. Do you feel you have an adequate number of vehicles to service your transportation needs?
7. Are you satisfied with the State's automotive fleet program?
8. What suggestions do you have for changes in the program to improve it?

These questions naturally opened avenues of discussion which led to others which were peculiar to the various departments and agencies involved. The interviews led to the observations, conclusions and recommendations contained later in this report.

*Extent of State Fleet as of December 31, 1968*

<i>General Fund Fleet</i>	<i>No. of Vehicles</i>		<i>Total</i>
	<i>Passenger</i>	<i>Commercial</i>	
Governor's Office	11	—	11
Agriculture	259	30	289
Forests and Waters	172	438	610
Health	365	40	405
Insurance	6	—	6
Internal Affairs	3	1	4
Justice	67	102	169
Labor and Industry	126	—	126
Military Affairs	20	23	43
Mines and Mineral Industries	61	17	78
Property and Supplies	373	39	412
Education	109	110	219
Public Utility Commission	51	—	51
Revenue	182	2	184
State Department	8	—	8
Public Welfare	282	546	828
Commerce	15	1	16
Parole Board	96	—	96
Lieutenant Governor's Office	1	—	1
Community Affairs	5	—	5
Historical and Museum Commission	2	13	15
Civil Defense	8	1	9
Civil Service Commission	3	—	3
State Tax Equalization Board	13	—	13
Brandywine Commission	—	2	2
TOTALS	2,238	1,365	3,603

<i>Special Funds Fleet*</i>	<i>Passenger</i>	<i>Commercial</i>	<i>Total</i>
Agriculture .....	10	2	12
Auditor General .....	297	—	297
Forests and Waters .....	56	226	282
Health .....	115	1	116
Internal Affairs .....	21	10	31
Justice .....	17	71	88
Labor and Industry .....	17	9	26
Military Affairs .....	12	26	38
Mines and Mineral Industries ..	2	12	14
Education .....	6	21	27
Revenue .....	19	4	23
Public Welfare .....	116	55	171
Commerce .....	3	—	3
Community Affairs .....	1	—	1
Historical and Museum Commis- sion .....	—	1	1
Civil Defense ..	—	28	28
Treasury .....	7	—	7
Banking .....	1	—	1
State Police .....	1,325	70	1,395
Fish Commission .....	44	117	161
Game Commission .....	127	228	355
Liquor Control Board .....	321	34	355
Milk Marketing Board .....	7	—	7
<b>TOTALS</b> .....	<b>2,524</b>	<b>915</b>	<b>3,439</b>
<b>GRAND TOTALS ALL FLEETS</b>	<b>4,762</b>	<b>2,280</b>	<b>7,042*</b>

\* Department of Highways not included.

#### STATE AUTOMOTIVE FLEET PROGRAM—AUTOMOTIVE BUREAU

The Automotive Bureau of Property and Supplies has three divisions: (1) Maintenance and Inspection, (2) Purchasing and Specifications, and (3) Disposition and Records.

The State maintains a garage at Harrisburg for the storage of the 305 temporary fleet pool cars. This garage has gasoline pumps which service approximately 720 cars in the Harrisburg area.

The garage also maintains a staff of seven mechanics who are available to provide full maintenance on the fleet pool cars stored at Harrisburg. It was the recommendation of the Director of the Automotive Bureau that the mechanic staff be increased to 15 so that all 720 Harrisburg area cars could be maintained at the State garage. This proposal has not been accepted.

At the present time, most maintenance on State cars is accomplished through commercial garages who have agreements with the State. The State-owned cars outside of the Harrisburg area obtain their gasoline through the Department of Highways' service sheds located throughout the State. If they are unable to obtain gasoline through these sources, they then use their Commonwealth of Pennsylvania credit cards at commercial gasoline stations.

Currently, the Director of the Automotive Bureau has a program for washing the fleet pool cars weekly through an outside service. Other State-owned cars are washed through commercial sources. The Director of the Automotive Bureau proposed that an automatic washing machine be installed at a cost of \$12,000 in the State garage. This could be used to wash all of the 720 cars based in the Harrisburg area. This proposal was not accepted.

#### INSPECTION

There are six field inspectors scattered throughout the State, each with a certain number of counties under his jurisdiction. The field inspectors periodically inspect all State-owned vehicles within their jurisdiction to insure that proper maintenance is being carried out so that the manufacturer's warranty remains in effect. Also, they are on call to inspect vehicles with serious maintenance problems to help the agency involved obtain a remedy for the problem at the least cost to the State.

The Director of the Automotive Bureau has recommended that three additional field inspectors be named to bring the total to nine so that each inspector would have a smaller territory to cover. This proposal was not accepted.

#### PURCHASING AND SPECIFICATIONS

The Executive Board is responsible for determining which agencies are to receive executive type cars, which are to receive standard passenger cars and which are to receive intermediate passenger cars. Once these criteria are established, the Automotive Bureau follows the rules in acquiring vehicles.

The vehicles are purchased through closed bids which are advertised and are open to all Pennsylvania automotive dealerships. The specifications are written by an engineer from the Bureau of Standards based on the criteria established. All of the vehicles are purchased through the successful bidder. The bids are let once each year following the budget approval at the time the funds for the automotive replacement become available.

The new cars are delivered at approximately 20 per week to the Harrisburg garage. The agencies who receive the cars are notified as soon as their vehicles arrive to bring their old cars to Harrisburg to the garage to exchange them for the new.

#### DISPOSITION AND RECORDS

Each agency having State-owned cars has an automotive officer. The Director of the Automotive Bureau communicates the automotive policy for the State through these automotive officers.

Each driver must submit a PSAB-5 form to his automotive officer every month. The form contains information on the mileage, the locations traveled to and from and the amount and cost of gasoline, oil and maintenance. The forms are forwarded by the automotive officer to the Disposition and Records Division of the Automotive Bureau which uses them as a basis for establishing statistics on the State-owned automotive fleet. Print-out records are made by an electric accounting machine periodically to give the Director of the Automotive Bureau reports of the operating statistics for each of the State-owned vehicles.

The only exception to this is the fleet maintained by the State Police. The State Police maintain their own statistical records separately.

The print-out reports are used for many purposes, one of which is to determine the vehicles which are ready for disposal. Once a year such a print-out is studied, and all vehicles over four years in age or vehicles which have traveled in excess of 60,000 miles are replaced. The Director of the Automotive Bureau formulates his budget proposal for a replacement fund based on the number of cars which evolve from this study, less the expected sale value for the cars which are sold.

The cars are sold at public auctions held periodically throughout the year. Notices are printed and distributed to a twelve-county area surrounding Harrisburg, and the auctions are held in the State garage in Harrisburg. A licensed auctioneer does the auctioning.



## GENERAL OBSERVATIONS

Those agencies having special funds or having access to Federal funds generally are in better condition with regard to their automotive fleets than the General Fund agencies. They appear to have a much greater chance of having their budget requests for automotive equipment approved as submitted than do those agencies who are dependent on the Automotive Bureau of Property and Supplies to obtain the necessary funds to service their automotive needs.

To illustrate, one need only to compare the Liquor Control Board fleet to the Department of Health fleet. The former normally can replenish its fleet entirely every two years while the Department of Health is still operating some vehicles which are six years old.

The Public Utility Commission has a unique arrangement in that it leases 51 passenger cars. This is the only State agency which has a leasing arrangement. Normally, leasing is not attractive to the State since the vehicles are owned by commercial leasing companies who cannot purchase cars as economically as the State because their purchases are subject to Federal and State taxes. The P.U.C. has the lease arrangement due to a statute which prevents them from using their funds to purchase machinery and equipment. Leasing circumvents this restriction. It is suggested that the P.U.C. renegotiate their lease arrangement at the earliest opportunity to eliminate the insurance coverage and have these vehicles covered under the State's blanket policy applicable to the balance of the fleet. These leased cars are covered by a \$50 deductible provision which is very costly. The State should self-insure for collision damage.

The General Fund passenger car fleet is too old to be operated economically. This condition has been brought about over a period of time by the need to increase the size of the fleet without having a corresponding increase in the funds available to do the job. Therefore, if an agency required additional cars, they would be asked to hold on to some older cars rather than retiring them. This was evidently the only way the transportation needs could be met. These older cars not only have depreciated to the point where their resale value is low, but they are undoubtedly incurring higher than average maintenance expenses.

As of December 31, 1968, there were 1,145 passenger vehicles ranging in age from three model years old to six model years old in the General Fund fleet, 1,093 cars one to two model years old. There were no 1969 model vehicles in the fleet.

As the services which State agencies are asked to render increase, their transportation needs increase correspondingly. The funds required to satisfy these needs have not kept pace; and in the long run, the State will be faced with a larger outlay of funds to refurbish its automotive fleet than would have been the case if the fleet was updated as increases occurred.

60. *The General Fund passenger car fleet is too old to be operated economically. This has been brought about by the need to appropriate general revenues annually for the purchase of cars as contrasted with the special funds where annual appropriations are not needed. Funds should be appropriated to the Department of Property and Supplies in a sufficient amount to move toward reducing the age of the fleet markedly.*

The most critical item in judging the value of a used car is its model year. Therefore, it is important to obtain as many new vehicles as soon as possible after introduction of the new models each year. This normally is in October and November. With a fairly high mileage rate, these cars should be kept about two years, auctioned off and replaced. All of the automotive officers interviewed complained about the tremendous time-lag between submission of their automotive requirements to Property and Supplies and delivery of new vehicles. This delay obviously not only inconveniences the users, but makes it impossible to obtain new vehicles early in the model year. As of March, no 1969 model cars had yet been delivered to the State fleet.

61. *Cars should be ordered as early in the model year as is possible and deliveries should be scheduled as fast as practicable.*

Due to the very high mileage experience of the State Police fleet, it should be considered separately and given special attention. Normally the State Police expect an average of 50,000 miles per year on some vehicles. As soon as cars have 50,000 miles, they are turned in for replacement. Because of the long delay between the requests for cars and delivery, as noted previously, the State Police must estimate far in advance the number of cars which will have 50,000 miles or more on their odometers by the time they *expect* them to be replaced.

The State Police estimated their requirements for fiscal year 1968-1969 at 800 vehicles and submitted their request on October 1, 1968. This request was not approved by the Governor's office and submitted to Property and Supplies until January 10, 1969. As of the date the State

Police were interviewed, February 25, 1969, no order for new vehicles had yet been placed by Property and Supplies. This is a five-month period and before the first new vehicles will have been delivered, it possibly will be 7 months or longer. By that time, the 800 vehicle estimate will probably not be very accurate, and many vehicles will remain in service with more than 50,000 miles on them. Needless to say, for critical police work these cars must be in top operating condition at all times, and this becomes an increasingly difficult problem with cars having excessive mileage. This situation is not unique with the State Police, but due to their tremendous mileage experience and large number of vehicles, it is very important to handle these requests expeditiously.

Because many of their men spend the greater part of their time in automobiles, the State should also consider equipping those cars used on patrol with air conditioners. Much of the initial cost of air conditioners is reclaimed at turn-in by a higher resale value. Not only would this be a morale-booster and recruiting plus, but the men themselves should be more alert and efficient in their busiest season of the year, the summer vacation months. The State Police are presently operating air conditioned cars on Turnpike patrol cars only.

62. *The time lapse between the request for new cars and delivery of the vehicles must be shortened. This is particularly critical in the case of State Police cars where some vehicles must be used past their top operating condition due to failure to receive new replacements on schedule. This can result in a hazard to the police and the public.*

In general, the procedures established by the Automotive Bureau for the automotive fleet program are good. The mechanics controlling the procedures also are good. However, due to the complexity of the fleet plus the lack of time and/or people, the effectiveness of the surveillance is questionable. For instance, the State has agreements for maintenance services with commercial concerns. These agreements call for special parts discounts, etc., in return for the volume of work which the State has to offer. Such agreements should be renegotiated at least once each year to insure that the State is receiving the lowest prices available on maintenance service. As far as could be determined, these agreements go on for years with no pressure on the repair agencies to keep on their toes service-wise and price-wise.

63. *The State's agreements with commercial concerns for maintenance services should be renegotiated each year to insure that the State is receiving the best possible services for the lowest possible prices.*

The size of the Commonwealth's fleet presents supply logistics problems, one of the greatest of which is tires. The State garage in Harrisburg maintains a very large inventory of tires. This inventory was so large, in fact, that specifications for new cars must be written to insure that the vehicles obtained can operate safely and will accommodate the tires the State has on hand. In industry, there is a general trend toward keeping inventories low and forcing suppliers, in a competitive market, to maintain needed inventories. With the tremendous buying power of the State, it would seem to make sense for competitive annual bids to be let to all interested tire manufacturers for firm prices on the many types and sizes of tires they make. The successful bidder would then advise all of their Pennsylvania outlets of the arrangements with the State, and possibly the Commonwealth credit cards could be used as a vehicle for charging the cost of the tires and installation costs back through Property and Supplies to the using agency.

Other accessories such as windshield wiper blades, air and oil filters, bulbs and batteries, might also lend themselves to annual firm price bids.

64. *The Commonwealth should discontinue stockpiling tires and accessories. Firm prices should be obtained annually from manufacturers and delivery taken as needed, perhaps by use of credit cards.*

Automotive Bureau policy requires approval on all repairs to State vehicles in excess of \$35.00. The requests for approval must be accompanied by three estimates. Due to the rising costs of repairs in the last five years, it is very difficult to repair much of anything for less than \$35.00. A more realistic approach would be to eliminate the necessity for obtaining estimates for normal maintenance *providing* the vehicles are taken to approved dealerships and the fleet discount card is used. For repair of damages or repairs other than normal maintenance, two estimates should be obtained for repairs in excess of \$50.00. Normal maintenance would include such items as lubrication, oil change, tire rotation, motor tune-up (including cleaning PCV valves), brake relining, etc. Other than normal maintenance would fall in the area of *repairs* such as valve grinding, transmission repairs, piston ring replacement, collision damage repairs, etc.



Most of the more costly repair jobs involving the engine and drive train are covered by the manufacturers' warranties for a period of five years or 50,000 miles provided the cars have received the recommended maintenance service. This point must be stressed with all State drivers to help reduce costly repairs. A much broader warranty coverage was in effect on 1966-68 models for two years or 24,000 miles. Beginning with 1969 models, this broad coverage is in effect for twelve months or 12,000 miles.

65. *For normal maintenance no bids should be required provided work is done by concerns referred to in Recommendation No. 63. Where it is not feasible to utilize those under agreement and for those services other than normal maintenance, two bids for work in excess of \$50.00 is recommended. All state drivers should be alerted to those items covered by warranties.*

The Automotive Bureau has six vehicle inspectors each of whom has a several county area to service. These inspectors are really vehicle auditors. They inspect to insure compliance with manufacturers' warranties and State vehicle inspections. They also are available to check major repair estimates prior to approval for repair. The value of these inspectors is difficult to ascertain. However, since the Automotive Bureau has tried to increase their number to nine and since several of the largest agencies (in terms of numbers of vehicles) have found it expedient to maintain their own inspectors, they undoubtedly serve a very useful function. These jobs, however, are political in nature and are subject to frequent change. One interviewee stated he knew of one vehicle inspector who was a florist prior to his appointment. To be truly effective, these men should be former mechanics and their jobs should be under Civil Service.

The Director of the Automotive Bureau of Property and Supplies has a very important role to play in the administration of the State's automotive fleet. As indicated previously, this program is highly complex and if not handled intelligently, it could cost the Commonwealth a considerable amount of money. There are 33 agencies involved with a total of 7,042 vehicles, not including the large number of Highways Department vehicles, larger than any fleet in industry and, due to the many agencies and different uses to which the vehicles are put, far more complex.

All large industrial fleets have a professional fleet administrator to run them. There are fleet publications and fleet associations and fleet administration is truly a profession. To effectively direct the State's automotive fleet operations, even an experienced man would need a year or more just to gain an appreciation of what the program contains and what its needs and problems are. It is strongly recommended that the position of Director of the Automotive Bureau of Property and Supplies be made a Civil Service job. This in no way is meant to reflect on the job the incumbent director is performing. He is doing a conscientious, effective job, but he will admit that it took two years to bring him to the point where he truly became effective.

66. *The position of Director of the Automotive Bureau and certain positions under his direction, particularly the automotive inspectors, should be placed under Civil Service.*

As covered previously, there is a pool fleet maintained by the Automotive Bureau of Property and Supplies in Harrisburg. This pool is at the disposal of State employes requiring temporary transportation. A request form must be approved by an official of each agency prior to submission to the dispatcher at the garage. The size of this pool has increased from 80 cars in 1966 to 305 cars presently because of the general feeling that it is less expensive to operate the pool cars than to allow State employes \$.10 per mile to operate their own cars on State business. This would certainly be true provided that the pool cars experience a high level of activity and resultant high monthly mileage. It appears that this is not precisely the case. Mileage records indicate that the use of pool cars is not particularly high. A careful study should be made to determine whether it would be more economical to reduce the pool fleet to a more efficient number. This would necessitate a greater use by State employes of their personal cars, but this should be more than offset by the reduction in purchasing, maintenance, inspection, storage, and operating costs if the State pool fleet were cut to a more efficient size.

67. *Mileage records indicate that the use of the cars in the Harrisburg pool is not particularly high. A careful study should be made to determine if the pool should be reduced to a more efficient number, or eliminated.*





# **IV CAPITAL IMPROVEMENTS BUDGETING AND EXPENDITURES**

TASK FORCE MEMBERS  
CAPITAL EXPENDITURES AND PUBLIC WORKS

John W. Ingram, *Chairman*

Martin H. Brackbill  
Rep. H. Jack Seltzer

Sen. George N. Wade  
William G. Willis

# The Recommendations

## CAPITAL BUDGETING—ORGANIZATION

The Little Hoover Committee recommends that the planning function now carried out by the State Planning Board, as far as it concerns the responsibility for preparation of the capital budget of the Commonwealth, including a five-year program of capital expenditures, be reorganized in such a manner as to make capital improvements planning an integral part of the functions of the Governor's Office and staff.

1. A Planning Director should be appointed by and be directly responsible to the Governor, to serve at his pleasure, at a salary commensurate with the responsibilities of the office. The Planning Director would be on a coordinate level with the Secretary of Administration and, if the office is separate, the Budget Secretary.
2. Assign to the Planning Director and staff the functions of reviewing all requests for items to be included in both the five-year capital budget and the five-year operating budget required by the recent amendments to the Constitution; the coordination of the long-range programming aspects of a planning-programming-budgeting system; and the regulation and coordination of long-range departmental planning. The preparation of both the five-year and annual capital and operating budgets should be the responsibility of the Budget Secretary. It should be the responsibility of the Planning Director and Budget Secretary to coordinate the long-range planning processes, with the Governor making final determinations.
3. The State Planning Board, as an advisory body to the Governor, would receive its staff support from the Planning Director and his staff.
4. Require the State Highway Commission to submit to the Planning Director for review and submission to the Budget Secretary for incorporation into the five-year capital budgets, the Commission's long-range highway program.
5. Require all requests for authorizations of new community colleges to be reviewed by the Planning Director prior to transmittal to the Governor for his approval so that the capital costs created by such authorizations may be included in future five-year and annual capital programs.

6. Require all other agencies of the Commonwealth which propose to spend funds from whatever source, whether borrowed under new or prior authorizations, or from Federal grants or State taxes or other revenues, to submit to the Planning Director their programs prior to inclusion in the capital programs of the Commonwealth.

#### CAPITAL BUDGET—DEFINITIONS

7. Establish a definition of capital expenditures to include administrative costs related to design and construction of capital facilities, to be drawn up by the Planning Director in consultation with the Secretary of Administration and, if a separate office, the Budget Secretary for review and approval of the Attorney General.
8. Include in the capital budget all items of a capital nature, to include equipment expenditures, which previously have been carried in operating budgets. Capital budget items may be financed from current revenues, as well as from borrowed funds.
9. State expenditures in the form of subsidies paid to local governments or private institutions in support of their capital outlays should either be included in the Commonwealth's capital budgets, or identified and cross-referenced to the appropriate sections in the operating budget where they are set forth as subsidies.
10. Request the Attorney General and his staff to review existing laws on planning and budget and related matters with a view to recommending specific changes in statutes which will be required to provide the legal basis for carrying out the recommendations of the Little Hoover Committee.
11. For purposes of computing the constitutional limitation on debt which can be incurred to finance capital expenditures, a clear statutory definition of the term "revenue" should be enacted.

#### CAPITAL IMPROVEMENTS—PLANNING

Virtually all of those who testified before the Task Force on Capital Expenditures were in accord that the most glaring deficiency in the Commonwealth's capital improvements planning process is the lack of careful and adequate "pre-planning"—planning at the conception and earliest stages of consideration of a project and prior to its approval for construction.

To assist in correcting this deficiency and to otherwise improve and expedite the capital budget procedure, the following recommendations are offered:

12. Facilities, resources and funds should be made available to all appropriate agencies for adequate pre-planning of structural improvements at conception of the project, including an architectural program, site and services availability investigation and cost estimate. More detailed pre-planning, including refined plans and revised cost estimates, should be prepared prior to inclusion of the project in a current annual capital budget. Ultimately, projects submitted for inclusion in either long-range or current annual capital budgets should be rejected if proper pre-planning has not been performed and plans submitted.
13. Each Commonwealth department or other agency utilizing and having control over land, buildings or other capital improvements should be required to prepare and periodically to up-date long-range capital development plans, setting forth plans for utilization of existing facilities and of proposed future land and structures acquisitions. Such plans should be clearly related to approved future functional and program objectives, and should project the relationship of capital plans to operating expenditures (and revenues where applicable) for a minimum future period of five years. Where applicable, supporting individual "campus plans" for State-owned, aided or related institutions should also be prepared and regularly up-dated. All plans should be prepared according to general criteria and standards promulgated by the Planning Director, and should be submitted to him. In turn, such plans should be submitted to the Planning Board for its review and comments or recommendations to the Governor, who should give final approval to each agency's plans. After a given date, no agency requests for capital improvements to be included in long-range or current annual capital budgets should be accepted unless an approved long-range capital improvements development plan has been submitted and approved.
14. To encourage serious departmental concern and participation in five-year capital budget processes the Budget Secretary, in concert with the Planning Director, should reject for inclusion in the current annual capital budget any project not previously included and approved in the preceding five-year capital budgets, making exceptions only in cases of clear, urgent and defensible emergencies.
15. As a further aid and support for realistic capital improvements planning, it is considered essential that the often-proposed and often-delayed preparation of an inventory of all Commonwealth-owned land and improvements be undertaken promptly, and responsibility and procedures be



established for maintaining the inventory as a perpetual record available to the using agencies, agencies responsible for building construction and maintenance, and the Planning Director.

#### CAPITAL BUDGET AND CAPITAL PROGRAMS—ADOPTION

Act 217, the Capital Facilities Debt Enabling Act enacted in 1968 and to be revised or extended on or before February 28, 1969, provides the machinery for implementing the annual capital budget.

In addition, the revised State Constitution, effective on or before July 1, 1970, will require the submission to the General Assembly of a five-year operating and a five-year capital program. There is no provision in the Constitution for action on either of these programs by the State Legislature.

However, the Little Hoover Committee recommends that:

16. The General Assembly, in its revision of the Capital Facilities Debt Enabling Act of 1968, consider the feasibility of endorsing or adopting in some manner, preferably by joint resolution of both Senate and House of Representatives, the five-year capital program, if not both programs.
17. The Committee also recommends that in fixing any permanent dates both for submission and action by the General Assembly on budgets and five-year programs, the General Assembly recognize the desirability of taking action on capital programs in advance of the operating programs, so that the operating programs will receive the necessary funds to carry out programs envisioned by capital expenditures.
18. It is also recommended that the General Assembly devise an appropriate means of requiring that new capital programs, which it proposes be added to or subtracted from the recommendations made by the Governor, be submitted via the Governor to the Planning Director for his comment prior to the action being taken, in order that the legislature, in acting thereupon, may have the benefit of the staff work that the planning staff must be capable of providing.
19. Finally, it is extremely important under the constitutional debt limitation provisions recently enacted that budgeted capital outlays proposed to be financed from proceeds of borrowing be coordinated with current and future estimated annual amounts that may be borrowed under the debt limitations. Appropriate cash-flow statements and projections should be prepared and submitted with both five-year and current annual capital budgets to assist in maintaining realistic limits on debt to be authorized, in relation to debt which may actually be incurred under constitutional limits.

## CAPITAL BUDGET—EXECUTION

20. It is recommended that the responsibility for supervising the design and construction of Commonwealth non-highway public works be centralized in the Department of Property and Supplies or its successor agency.
21. It is recommended that a board similar in composition to the General State Authority board, composed of members representing the executive and legislative branches, but not necessarily either cabinet officers or legislators, to be appointed by the Governor and the respective heads of the two branches of the General Assembly, be established for the purpose and with the responsibility of reviewing and approving the acceptance of bid proposals in excess of amounts estimated in the capital budgets, including highways, and allocating the necessary additional funds from amounts earmarked for that purpose by the General Assembly; and in addition, that the Board, to be known as the Public Works Commission, also review the qualifications of architects and engineers seeking appointments by the Commonwealth with a view of creating lists from which the appropriate executive appointments can be made.



# The Problems of Capital Budgeting

The capital expenditure structure in the Commonwealth of Pennsylvania separates into substantially three areas, namely, planning, budgeting and execution.

The first is variously conducted by (a) individual agencies and program developers in government (b) interested groups outside government and (c) the State Planning Board. The Board is the only agency formally charged by law with this duty, described in the most general terms in the Act of May 20, 1949 (P. L. 1608) which states:

Prepare, amend and keep up to date, a long-term development program of all major State improvement projects. The public works program so prepared shall be a comprehensive construction and financial program covering a long-term period and shall be prepared in consultation with the several State departments for the purpose of assisting, by long-term budgeting of capital expenditures, in stabilizing industry and employment by promoting the planning and timing of public works within the State and by the elimination of unplanned, untimely, unnecessary and extravagant projects. All State departments, divisions and officials shall submit their respective long-term programs and proposals for the information of the board. The board shall encourage the preparation of detailed plans for construction projects by the departments, boards, commissions and other agencies of the State. All plans for all projects as enumerated above and originating under whatsoever authority or department shall be presented to the State Planning Board for its information when first taken under consideration by such authority or department and in a preliminary form. The public works program shall be revised annually for the purpose of extending it one year in the future and a report thereon shall be submitted by the board to the Governor once a year, or more often if requested by the Governor. It shall also be the duty of the board to promote and encourage the development of similar public works programs in the various political subdivisions of the State and to coordinate local public works programs where joint action is required.

Enacted in 1949, the statute is the basis for the publication in recent years of printed capital works programs which have received insufficient attention by the General Assembly which ultimately must implement any public works program, however financed.

The law appears to have all the elements necessary for the development of a successful public works program, but unfortunately it lodged authority in an agency which could only carry out the function proposed by assuming powers delegated by other legislation to other agencies of more importance to the Governor and to the General Assembly.

In other words, as long as the Planning Board went through the motions of preparing a public works program but actually did not do

so, it ruffled no feathers, stirred up no hornets' nests and was ignored. But the moment it attempted, as the law clearly contemplated, developing not only public works plans but the means of financing them, it was in deep difficulties.

Consider for a moment the implications of financing—the financing could be done only in three major ways from debt, from current revenue or by self-liquidation from earnings of projects or programs earmarked to pay off debt.

But nowhere was the Planning Board given either the authority to contract debt or to determine what part of the Commonwealth's current tax revenues should be devoted to the financing of a particular public works project which is considered worthy and necessary.

Consider the relation of the Planning Board to the Governor.

While located within the Governor's Office for administrative services purposes, it is an independent body in that its members appointed by the Governor serve for overlapping terms that can extend beyond the term of the appointing Governor. Thus, by law the original terms of four expire in one year, four others in the following year, another four in the third year, and the terms of the last three in a fourth year. This means that it is not until the final year of a Governor's term that all members whom he is eligible to name are of his selection. What is even more important is the fact that at the beginning of his term, he can appoint only three or four, depending on what terms are expiring, and if the Governor is unable to win immediate confirmation of his appointees by the Senate, he will have no advocates on the Board except those who are also members of his cabinet, who serve as ex-officio members of the Board, the Secretaries of Agriculture, Commerce, Community Affairs, Highways and Forests and Waters.

The chief objection to a board of this sort is that the membership has tended to be bipartisan in an agency charged with one of the most sensitive jobs in government, that of deciding what capital projects the Commonwealth will undertake to advance its programs and the priority given such projects.

If a Planning Director is really to plan and is to have any voice in deciding what portion of the State's resources are to be devoted to capital and, within a capital program, how each program or category is to fare, that individual must be directly responsible to the Governor in fact as well as on paper.



# Alternatives and Recommendations

Three approaches can be taken to the preparation of the capital budget.

The first approach would be the continued use of the State Planning Board with its authority and responsibilities more clearly stated in relation to the operating budget. If this approach is adopted, then it would also be necessary to revise membership on the Board so that members serve at the pleasure of the incumbent Governor, and also to eliminate operating department heads from membership on the Board and replace them, possibly with the Budget Secretary, the Secretary of Administration (if a separate office) and the Secretary of Public Affairs. The purpose of adding these staff officers of the Governor is to give him a strong voice in the Planning Board deliberations, something which he now lacks.

The focus of the Planning Board would be placed on the preparation of a five-year plan of public works rather than the annual capital budget. If this occurs, then the current year of the five-year plan would be the current capital budget.

Another alternative is to assign the full task for preparing the capital budget and the capital five-year plan to the Budget Office which is now in the process of developing a new Planning-Programming-Budgeting System with this goal in view. This would require either the outright abolishment of the capital improvements planning role of the Planning Board, or a severe curtailment of its present powers.

So far as the Little Hoover Committee is concerned, the recommended alternative, would be to establish as an integral part of the Governor's Office, a Planning Director appointed by the Governor. The Planning Director would cooperate with the Budget Secretary in the formulation of both the capital and the operating five-year budgets required by the Constitution. Both current and five-year capital and operating budgets would be prepared by the Budget Secretary. In the preparation of the five-year budgets, the Planning Director would receive, review and prepare recommendations on all requests for items to be included, and would submit his recommendations to the Budget Secretary. In the event the Budget Secretary should not concur with the recommendations of the Planning Director, the issue would be resolved by the Governor.

A major responsibility of the Planning Director would be to ascertain that long-range budget requests are supported by evidence of adequate planning, in accordance with planning criteria promulgated by him.

- 1. A Planning Director should be appointed by and be directly responsible to the Governor, to serve at his pleasure, at a salary commensurate with the responsibilities of the office. The Planning Director would be on a coordinate level with the Secretary of Administration and, if the office is separate, the Budget Secretary.*
- 2. Assign to the Planning Director and staff the functions of reviewing all requests for items to be included in both the five-year capital budget and the five-year operating budget required by the recent amendments to the Constitution; the coordination of the long-range programming aspects of a planning-programming-budgeting system; and the regulation and coordination of long-range departmental planning. The preparation of both the five-year and annual capital and operating budgets should be the responsibility of the Budget Secretary. It should be the responsibility of the Planning Director and Budget Secretary to coordinate the long-range planning processes, with the Governor making final determinations.*
- 3. The State Planning Board, as an advisory body to the Governor, would receive its staff support from the Planning Director and his staff.*

A determination also must be made whether the Highway Commission, as now constituted, would be continued. It would in a sense be vying with the Planning Director and the Budget Secretary in the formulation of a long-range capital program because it is soon going to be apparent that a major component, if not the major component, of any five-year capital program, will be the construction of highways.

Actually there should not be two authorities preparing public works programs. The Budget Secretary, if he is the official ultimately deciding needs and uses of resources, must not have a rival in this field, vying for the same resources, viz. the borrowed funds available under the new constitutional ceiling. The new debt limit makes this consideration an imperative one if any future programming of available resources for capital works is to function.

4. *Require the State Highway Commission to submit to the Planning Director for review and submission to the Budget Secretary for incorporation into the five-year capital budgets, the Commission's long-range highway program.*

Similarly, the functions of the State Board of Education in the development of facilities for higher education, must be reviewed. It must not be empowered to approve new community colleges and other educational programs, involving vast capital commitments, without first having its place designated for it in a long-range capital program. This also would apply to Federal capital funds allocated by the Higher Education Facilities Commission.

As an example of the problem in the current year, the Department of Education lists two new community colleges. What this means in terms of capital commitments against the Commonwealth's fairly rigid debt limit, is completely unknown. This is surely part of the capital program since community college construction, no matter who undertakes it, represents a 50 per cent commitment on the part of the Commonwealth for capital expenditures.

5. *Require all requests for authorizations of new community colleges to be reviewed by the Planning Director prior to transmittal to the Governor for his approval so that the capital costs created by such authorizations may be included in future five-year and annual capital programs.*
6. *Require all other agencies of the Commonwealth which propose to spend funds from whatever source, whether borrowed under new or prior authorizations, or from Federal grants or State taxes or other revenues, to submit to the Planning Director their programs prior to inclusion in the capital programs of the Commonwealth.*

Two other facets of existing law which require consideration in connection with any revision of the procedures for the development of capital works programs are Section 601 of the Administrative Code, the basic authority for the Governor's budget, and the new provisions in the Constitution.

It has been generally assumed that Section 601 applies only to the operating budget, but this is not a fact so much as an historical precedent. The language of the section is so broad that it encompasses all budget making, both operating and capital, and grants powers speci-

cally to the Budget Secretary which are in direct conflict with those assigned the Planning Board in the State Planning Code of 1949, a portion of which was cited above. This same law, however, states that the Planning Board is subject to all the provisions of the Administrative Code of 1929, without qualification of any kind, which would appear to indicate that as far as the implicit conflict that exists between the powers on budgeting granted to the Budget Secretary and those given the Planning Board on budgeting of capital works is concerned, it is immediately resolved in favor of the Budget Secretary and this has in fact been more or less the situation.

Historically, when the Planning Board has sought to exercise the powers clearly conferred on it by the Planning Code without regard to the Budget Secretary exercising the same powers, if the Budget Secretary has entered specific and energetic objections, the Planning Board has generally vacated the field or at least sought some kind of truce with the Budget Secretary.

But the conflict has never been satisfactorily resolved and it must be, if orderly capital budgeting is to be maintained.

The second factor, the new provisions of the Constitution, for the first time not only requires an annual operating budget, but also an annual capital budget, apparently to be presented separately. In addition, the Governor is charged with submitting a five-year operating plan and a five-year public works plan. Only the current annual capital budget must be adopted by the General Assembly.

However, the Constitution also states that the operating budget appropriations of the General Assembly in any given year cannot exceed the actual and estimated revenues available and surplus, if any. This replaces the former constitutional requirement for a balanced budget that was fixed by the Constitution's \$1,000,000 debt limit, now eliminated.

It is an interesting sidelight that the new Constitution, while permitting the legislature to authorize borrowing for specific capital projects itemized in the capital budget, bars both the executive and the legislature from borrowing anything for non-capital purpose without the explicit approval of the electors.

The only exceptions are debt required to suppress insurrections, or to rehabilitate areas devastated by natural or man-made disasters.

## CAPITAL BUDGET—DEFINITIONS

It is worthy of comment that as of now there is no statutory definition of a capital project. Up to the present, in the Commonwealth it has been limited to physical things built or purchased for the Commonwealth.

Here are some of the things, not now included, that possibly should be classified as capital items but not necessarily to be financed from borrowed funds:

Computers and peripheral equipment purchased by the Commonwealth either outright or on a lease-purchase agreement.

Grants to local agencies for capital purposes such as

- a. Industrial development loans
  - b. Port development, Philadelphia and Erie
  - c. Urban renewal and redevelopment
  - d. Airport development
  - e. Mining area restoration
  - f. Grants to municipalities for construction of utilities serving State institutions
  - g. Capital equipment at State-owned and State-related colleges and universities
  - h. Rental and sinking fund payments to school districts
  - i. Non-operating educational TV grants
  - j. Capital payments to community colleges
- Automotive equipment.

7. *Establish a definition of capital expenditures to include administrative costs related to design and construction of capital facilities, to be drawn up by the Planning Director in consultation with the Secretary of Administration and, if a separate office, the Budget Secretary for review and approval of the Attorney General.*

It is also possible that the \$1,500,000 earmarked in the Department of Property and Supplies' current appropriation for salaries and expenses for its Bureau of Construction can be construed to be a capital expense in the same manner as the administrative costs of the General State Authority and other authorities are construed as such.

It should be remembered that the new Constitutional provisions do not require that capital works be paid for with borrowed money. What it does require is that there be a capital budget listing or itemizing projects (and possibly programs), and a plan for paying for them, which in a sense is what the Planning Code now requires of the Planning Board.



8. *Include in the capital budget all items of a capital nature, to include equipment expenditures, which previously have been carried in operating budgets. Capital budget items may be financed from current revenues, as well as from borrowed funds.*
9. *State expenditures in the form of subsidies paid to local governments or private institutions in support of their capital outlays should either be included in the Commonwealth's capital budget, or identified and cross-referenced to the appropriate sections in the operating budget where they are set forth as subsidies.*

What does the Administrative Code now require of the Budget Secretary?

1. It requires him to obtain the information from which a budget is constructed. He is required to prepare the forms and distribute them to the concerned agencies no later than August 15 of the year before the budget is to be submitted. The forms provide that the agencies supply information to the Budget Secretary on revenues and expenditures, a list of appropriations for the current year, the expenditures therefrom, the encumbrances and the unencumbered amounts and estimated amounts of money needed for the coming fiscal year, as well as estimates of revenue.

The Budget Secretary, as such, is not doing everything required here. There is an estimate of expenditures, encumbrances and unencumbered balances prepared and distributed each month but by an office over which he has no control, except when, as is currently the case, the offices of Budget Secretary and Secretary of Administration are held by the same person.

2. The estimates of revenues and expenditures required to be given the Budget Secretary by the departments, boards and commissions and all others are limited to money to be received or spent in a fiscal year, although the Budget Secretary, at the direction of the Governor, may make additional inquiries which presumably would go beyond the fiscal year, if that was the Governor's instruction.

At no point is the Budget Secretary given authority either to alter or amend the estimates, either of revenues or of expenditures. This authority is specifically lodged in the Governor, who can only do so, "after giving to each department, board, commission, institution or other agency, an opportunity to be heard."

10. *Request the Attorney General and his staff to review existing laws on planning and budget and related matters with a view to recommending specific changes in statutes which will be required to provide the legal basis for carrying out the recommendations of the Little Hoover Committee.*

The Administrative Code must be revised to bring it into line with the new provisions of the Constitution, setting forth in more detail than the Constitution how the various facets of the budget are to be presented to the General Assembly, and what actions must be taken. Again, there should be a legal definition of what are capital projects, of what should be included in a five-year operating plan and what should be included in a five-year capital plan, and what should be done with them. Furthermore, a legal definition of revenue is badly needed, particularly since this is a term used in both the Constitution and the Administrative Code.

For example, the budget of the Highways Department includes as revenue what is received from non-tax and tax sources, from borrowed funds and from Federal grants, but the General Fund budget does not. Revenue in that case is limited to what is paid into the State Treasury from taxes and related non-tax sources while the term "augmentations" has been applied to a whole range of funds from other sources, particularly Federal.

The fact that the Budget Office does not include Federal funds as revenues in the General Fund budget results in greatly distorted fiscal data, because while the expenditures do incorporate Federal funds in the proposed spending, the so-called augmentations are appropriated only in blanket terms. There is no attempt whatsoever to control the expenditure of borrowed funds except by blanket appropriations made at the time permission is granted to borrow, which may come at one time for a particular bond issue, or for a whole range of expenditures on other occasions.

This has been done so often and so frequently that no one ever raises the question as to whether this conforms with those provisions of the Constitution which read:

Article III, Section 11:

The General Appropriation bill shall embrace nothing but appropriations for the executive, legislative and judicial departments of the Commonwealth, for the public debt and for the public schools. All other appropriations shall be made by separate bills, each embracing but one subject.

Then we have Section 24

No money shall be paid out of the treasury except on appropriations made by law and on warrant issued by the proper officers.

Whether blanket appropriations extending over a year or many years, such as the appropriation of moneys in the Motor License Fund to build highways, meet these two Constitutional requirements is open to question.

*11. For purposes of computing the constitutional limitation on debt which can be incurred to finance capital expenditures, a clear statutory definition of the term "revenue" should be enacted.*

## CAPITAL IMPROVEMENTS—PLANNING

The conclusion of the Committee as to the outstanding deficiency in the Commonwealth's public improvements planning processes tends to substantiate similar conclusions of prior studies by the Pennsylvania Economy League, by Day and Zimmerman, Inc. and by the Stanford Research Institute (unpublished). This conclusion is that a major—if not the major—cause of delays in design and construction, changes during construction, erroneous cost estimates and unsuitable finished projects is the inadequacy or total absence of proper and realistic preliminary planning (pre-planning) from the earliest stages of conception of a capital improvement project.

Instances are cited in the aforementioned study reports, and have been augmented by those testifying before the Task Force, where:

At the outset of design of an approved project, the proposed building site is found to be unavailable or unsuitable; or no provision is made for providing necessary utility services;

At the opening of bids, cost estimates are found to be totally unrealistic;

During design stages, the basic design features or characteristics and even the use concept of the project are almost totally altered;

During construction, major alterations of design and purpose are requested and undertaken;

After completion, alterations and additions are begun almost immediately in some instances, while in others, portions of completed facilities go unused or are used for unintended purposes.

The blame for the excessive delays and costly changes resulting from these instances can usually be traced to lack of clear, carefully developed concepts of need and of utilization and general design criteria at the time a project is conceived by the using agency, or subsequently at the time it is successively approved by the department head, the State Planning Board, the Governor and the Legislature.

The most common recommendation to correct this major deficiency has been to initiate formal, professional pre-planning at the earliest stages of conception of all major building projects, to include development of an architectural concept or program, specification of general design criteria and estimation of construction costs.

According to testimony received by the Committee, steps toward carrying out this objective have been initiated through the General State Authority. Regardless of any changes which might take place in the organizational responsibilities for design and construction of Commonwealth capital improvements, the need is evident for carrying forward this program.

*12. Facilities, resources and funds should be made available to all appropriate agencies for adequate pre-planning of structural improvements at conception of the project, including an architectural program, site and services availability investigation and cost estimate. More detailed pre-planning, including refined plans and revised cost estimates, should be prepared prior to inclusion of the project in a current annual capital budget. Ultimately, projects submitted for inclusion in either long-range or current annual capital budgets should be rejected if proper pre-planning has not been performed and plans submitted.*

A major impediment to effective capital improvements programming or budgeting is the absence or inadequacy of comprehensive long-range programs for development of Commonwealth institutional facilities. Such comprehensive plans should be prepared for each major function and for each institution utilizing State-owned or State-aided buildings, and should clearly relate future capital development plans to approved operating program goals and objectives. Availability of comprehensive



development plans is essential to permit realistic and reliable judgments as to individual projects requested to be included in five-year or annual capital budgets.

13. *Each Commonwealth department or other agency utilizing and having control over land, buildings or other capital improvements should be required to prepare and periodically to up-date long-range capital development plans, setting forth plans for utilization of existing facilities and of proposed future land and structures acquisitions. Such plans should be clearly related to approved future functional and program objectives, and should project the relationship of capital plans to operating expenditures (and revenues where applicable) for a minimum future period of five years. Where applicable, supporting individual "campus plans" for State-owned, aided or related institutions should also be prepared and regularly up-dated. All plans should be prepared according to general criteria and standards promulgated by the Planning Director, and should be submitted to him. In turn, such plans should be submitted to the Planning Board for its review and comments or recommendations to the Governor, who should give final approval to each agency's plans. After a given date, no agency requests for capital improvements to be included in long-range or current annual capital budgets should be accepted unless an approved long-range capital improvements development plan has been submitted and approved.*

A further essential aid to sound capital budgeting is a central perpetual inventory of State-owned land and improvements. Earlier reports on the Commonwealth's capital budget procedures have recommended that such an inventory be conducted, but no specific action has been taken apparently due to lack of available funds for this purpose.

In addition to the need for preliminary and basic comprehensive planning, aided by a capital facilities inventory, it is important that those responsible for preparing and making decisions on capital budgets, proposed to be the Planning Director and Budget Secretary, exert certain disciplinary measures to assure serious participation by those agencies submitting capital budget requests. The objective should be to make certain that adequate preliminary planning has been completed prior to submission of capital improvement project requests, and that projects to be incorporated in current annual capital budgets have been submitted and approved for inclusion in prior five-year capital budgets.

14. *To encourage serious departmental concern and participation in five-year capital budget processes the Budget Secretary, in concert with the Planning Director, should reject for inclusion in the current annual capital budget any project not previously included and approved in the preceding five-year capital budgets, making exceptions only in cases of clear, urgent and defensible emergencies.*
15. *As a further aid and support for realistic capital improvements planning, it is considered essential that the often-proposed and often-delayed preparation of an inventory of all Commonwealth-owned land and improvements be undertaken promptly, and responsibility and procedures be established for maintaining the inventory as a perpetual record available to the using agencies, agencies responsible for building construction and maintenance and the Planning Director.*

#### CAPITAL BUDGET AND CAPITAL PROGRAM—ADOPTION

16. *The General Assembly, in its revision of the Capital Facilities Debt Enabling Act should consider the feasibility of endorsing or adopting in some manner, preferably by joint resolution of both Senate and House of Representatives, the five-year capital program, if not both programs.*
17. *The Committee recommends that in fixing any permanent dates both for submission and action by the General Assembly on budgets and five-year programs, the General Assembly recognize the desirability of taking action on capital programs in advance of the operating programs, so that the operating programs will receive the necessary funds to carry out programs envisioned by capital expenditures.*
18. *It is also recommended that the General Assembly devise an appropriate means of requiring that new capital programs, which it proposes be added to or subtracted from the recommendations made by the Governor, be submitted via the Governor to the Planning Director for his comment prior to the action being taken, in order that the Legislature, in acting thereupon, may have the benefit of the staff work that the planning staff must be capable of providing.*



19. *Finally, it is extremely important under the constitutional debt limitation provisions recently enacted that budgeted capital outlays proposed to be financed from proceeds of borrowing be coordinated with current and future estimated annual amounts that may be borrowed under the debt limitations. Appropriate cash-flow statements and projections should be prepared and submitted with both five-year and current annual capital budgets to assist in maintaining realistic limits on debt to be authorized, in relation to debt which may actually be incurred under constitutional limits.*

## CAPITAL BUDGET—EXECUTION

A major problem in connection with the capital budget revolves around its execution. This has been a divided responsibility at present with the Highways Department alone responsible for the highway construction program, but both the General State Authority and the Department of Property and Supplies responsible, in an overlapping fashion, for its execution.

There seems to exist a unanimity of view that one agency should be solely responsible for public works, exclusive of highways. But there is no agreement on whether that agency should be the General State Authority as presently constituted, the Department of Property and Supplies with an expanded Bureau of Construction, or an entirely new agency—a Public Works Administration or some such title. The advantages of one agency are too obvious; the disadvantage of several agencies sharing responsibility is that no agency is really responsible and more time is spent avoiding responsibility and decisions than in executing the budget.

It obviously would be an advantage to any administration to have its building agency directly responsible to it in the same manner as the Highways Department is now part of the administration. What has been proposed is that if the responsibility for public works is given to the Department of Property and Supplies or a new agency under the Governor, then there should be created a new independent board, composed jointly of representatives of the executive and the legislative branches, with the all important function of passing on more than normal additional authorizations in the cost of projects. This function is now

performed by the Board of General State Authority. The new board, suggested to be named the Public Works Commission, would also have the function of recommending to the Governor panels of architects and consultant engineers from which he will make selections for design and engineering of public improvements.

20. *It is recommended that the responsibility for supervising the design and construction of Commonwealth non-highway public works be centralized in the Department of Property and Supplies or its successor agency.*

If such a plan is adopted, the necessity of retaining the General State Authority, except for the purpose of liquidating existing Authority financing, will vanish. Its staff will naturally continue to serve the State as before but under different management. Even if the Authority is retained, it will be necessary to decide if borrowed funds should be used for payment of Authority administration costs.

21. *It is recommended that a board similar in composition to the General State Authority board, composed of members representing the executive and legislative branches, but not necessarily either cabinet officers or legislators, to be appointed by the Governor and the respective heads of the two branches of the General Assembly, be established for the purpose and with the responsibility of reviewing and approving the acceptance of bid proposals in excess of amounts estimated in the capital budgets, including highways, and allocating the necessary additional funds from amounts earmarked for that purpose by the General Assembly; and in addition, that the Board, to be known as the Public Works Commission, also review the qualifications of architects and engineers seeking appointments by the Commonwealth with a view of creating lists from which the appropriate executive appointments can be made.*



# APPENDIX

## I PROCUREMENT





# Procurement Recommendations Which May Require Legislative Action

To implement the recommendations made in this report may, in some instances, require legislative change. Listed below is our summary of the items that may or may not require legislative change.

## I. Recommendations that may not require legislative change:

- Item 2 Overall State Procedures
- Item 5 Blanket Orders
- Item 6 Small Value Purchase Order
- Item 8 Payment to Suppliers
- Item 9 “State of the Art”—Procurement
- Item 11 Suppliers of State’s Requirements
- Item 13 Receiving and Inspection
- Item 14 Warehousing
- Item 20 The Bureau of Standards
- Item 23 The Bureau of Publications
- Item 24 State Leasing Practices

## II. Recommendations that may require legislative change:

- Item 1 Overall State Procurement
- Item 3 Audits for Compliance with Policy and Procedures
- Item 4 Competitive Bidding
- Item 7 Surety Bonds
- Item 10 State Image
- Item 12 Budget Control and Commitments
- Item 15 Property Control
- Item 16 Surplus Property
- Item 17 Employee Education
- Item 18 Procurement Personnel
- Item 19 Civil Service
- Item 21 Board of Commissioners of Public Grounds and Buildings
- Item 22 The Automotive Bureau
- Item 25 General State Authority
- Item 26 Local Government/State Procurement



## **II PERSONNEL MANAGEMENT**



# Manpower Planning

DONALD C. STONE

I consider the implementation of the comprehensive Manpower Planning and Development system to be one of the most urgent tasks of the Commonwealth if it is to fulfill its public service responsibilities in the next decade.

The Department of Personnel has made a good start in the design of the system. A Manpower Planning Division has been established and assigned the three tasks of (1) preparation of annual manpower plan, (2) a coordinated recruiting program based on needs, and (3) program evaluation.

Success of the system will depend on the ability to make it operational, and the degree of cooperation of the departments and the agencies. The following are some of the measures I see as essential if the system is to be effective.

1. *Comprehensive recruitment program.* An objective of the system is the formulation of a definitive program of recruitment for one year and longer term periods. Inasmuch as recruitment is now divided between the Civil Service Commission and the Governor's Personnel Secretary, with manpower planning, training, development, and some recruitment functions vested in the Bureau of Personnel, the system will not work well unless these functions are consolidated into a single personnel system as recommended in our report. Without such consolidation, a single, comprehensive recruitment system covering all State personnel (except for those top positions which are appropriately exempt from civil service) will be difficult to formulate and almost impossible to implement.

2. *Anticipatory recruitment.* To carry forward such a comprehensive recruitment program the emphasis should be shifted from measures to provide for short-run needs to a positive, anticipatory type of recruitment in which the central personnel agency and the departments, on an agreed upon system of cooperation, scour the State and areas beyond for qualified persons.

3. *Generating the talent.* Far-reaching and resourceful measures should be taken to advise universities, school systems, and other training institutions of short-term and long-term personnel requirements in order

that adequate sources of supply may be developed. Federal, State, and local financing, including private support, can thus be channeled to critical shortage fields.

4. *Integrating State and local plans.* Many of the most critical areas of administrative, professional, and technical education required for meeting the needs of an urban-industrial state have been neglected. State leadership, working with local agencies and professional organizations, should encourage and assist in the establishment of adequate pre-service and in-service degree and non-degree training programs to meet State and local personnel requirements in such fields as transportation planning and administration, water resources, public works, community action and development, urban and regional planning, economic and industrial development, administration of law and justice, community recreation and park administration, urban renewal and housing, urban management, and the administration of the performing arts and other cultural activities already receiving increased public sponsorship. If the State is able to carry forward the proposed study of manpower requirements of counties, cities, and other local governments, it will be possible to plan how all public service manpower needs in the State can be met. To be effective the resources of the Department of Community Affairs which has the primary ongoing responsibility will need to be augmented.

5. *Federal assistance.* The Manpower Planning Division should take full advantage of federal manpower planning data, make maximum use of federal civil service registers of qualified candidates who might be interested in State positions, and utilize fully federal funds available for public service education. Two new acts hold great potential for Pennsylvania.

—The Education for the Public Service Act (Title IX of the Higher Education Act) which provides for grants to universities for pre-service education of practitioners for administrative, professional, and technical positions in local, state, and federal services. This act needs funding.

—S. 11, the Intergovernmental Personnel Act introduced by Senator Muskie and over thirty other Senators. This bill provides for federal grants to states for the strengthening of their personnel systems, fellowships for state and local employes, training programs, and a system of detailing or loaning of personnel from federal to state and local agencies and from local to state and federal agencies to meet critical needs.

Support of both of these congressional acts is recommended.



6. *Use of the executive inventory records.* Translation of the executive inventory into an effective instrument for the identification of qualified individuals within the State service and for their reassignment to higher positions when vacancies occur will require a lot of operational capability. In the past there has been very little mobility of personnel among State departments and virtually none among federal, State and local agencies. The executive inventory records delineate the basic qualifications of individuals. A "print out" of such records should cast up good prospects to fill vacant positions. However, two new measures will be required:

- revision of civil service regulations to enable vacant positions to be filled by this system.
- adoption of a procedure for evaluation of such "print out" prospects to determine their qualifications and potential for the vacant post.

To make the system work there must be very progressive and professional personnel officers within the departments and agencies who work in cooperation with the Manpower Planning Division. Since agencies often drag their feet over proposals to promote an employe into a position in another department, adequate central authority is essential to make the plan work.

Many of the features of the executive assignment system adopted by the President and administered by the U.S. Civil Service Commission are applicable in Pennsylvania.

7. *Departmental capabilities.* The entire Manpower Planning and Development system will falter unless the heads of State departments and institutions initiate better personnel systems. This entails appointment of a first-class personnel director in each agency and leadership in initiating and utilizing good personnel practice. The Bureau of Personnel is prepared to decentralize personnel functions over which it has control if the departments can absorb them. Some of the activities of the Civil Service Commission would also appear appropriate for further decentralization.

8. *Conclusions.* The State is to be commended for initiating the Manpower Planning and Development System. It has tremendous potential in the development of a modern personnel system for the State.

However, the system will be severely handicapped unless (1) State-wide personnel and civil service functions are consolidated, (2) the Manpower Planning Division is provided with an adequate budget and

a very able staff, (3) the departments and agencies are better organized and staffed to carry out their part of personnel responsibilities, (4) effective relations are developed with federal agencies, local governments, and the universities and other educational institutions.

These steps require a new commitment of both State legislators and political executives to manage all State services on a merit basis with citizens assured of securing a maximum return on the tax dollar.

### **III ADMINISTRATIVE SERVICES**



STATE INSURANCE FUND  
STATUS OF FUND BALANCE  
SEPTEMBER 30, 1968

Cash in Treasury .....	\$ 279,724.62	
Investments:		
United States Treasury Bonds, 12/15/67-72		
@2½% .....	100,000.00	
	<u>          </u>	
Total Cash and Investments .....		\$379,724.62
Appropriation to State Insurance Fund:		
Act No. 68-A (Session of 1953) .....	1,000,000.00	
Less: Amount Received by State Insurance		
Fund .....	\$300,000.00	
Funds Lapsed June 30, 1968 .....	<u>700,000.00</u>	<u>1,000,000.00</u>
Balance in Custody of State Treasury .....		--0--
FUND BALANCE .....		<u>\$379,724.62</u>

COMMITMENTS

Claims Against Fund For Fire Losses .....	\$ 46,695.31	
Recoverable Automobile Damages:		
Claims Pending .....	<u>40,086.32</u>	
Total Commitments .....		86,781.63
TOTAL FUNDS AVAILABLE .....		<u><u>\$292,942.99</u></u>

STATE INSURANCE FUND  
CASH FLOW—STATEMENT  
From July 1, 1965 to June 30, 1968

	7/1/65		7/1/66		7/1/67		TOTAL	AVERAGE
	To	6/30/66	To	6/30/67	To	6/30/68		
Beginning Balance July 1 .....		97,809.04		125,251.82		189,726.59	412,787.45	137,595.82
CASH RECEIPTS								
<i>Interest</i>								
Insurance Fund Investment .....	2,500.00		2,500.00		2,500.00		7,500.00	2,500.00
Fire Insurance Fund .....	82,165.26		96,140.59		79,913.07		258,218.91	86,072.97
<i>Recoverable Damages</i>								
From Insurance Companies .....	33,252.86		37,708.95		62,020.68		132,982.49	44,327.50
TOTAL CASH AVAILABLE .....	215,727.16		261,601.36		334,160.34		811,488.86	270,496.29
EXPENDITURES .....	90,475.34		71,874.77		166,136.97		328,487.08	109,495.69
CASH BALANCE JUNE 30 .....	\$125,251.82		\$189,726.59		\$168,023.37		\$483,001.78	\$161,000.60



COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

EXECUTIVE DIRECTIVE NO. 10

March 6, 1967

SUBJECT: Selection of Management Consultants  
For Commonwealth Agencies

TO: Heads of all Administrative Departments, Independent  
Administrative Boards and Commissions, and other  
State Agencies under the Governor's Jurisdiction

FROM: Governor Raymond P. Shafer

Many agencies and departments of the Commonwealth are requesting the services of management consultants. The use of consultants has been proven beneficial in most cases, but there are instances where improper judgment in this area has resulted in wasted time and unwarranted expense. The decision to use consultants and their proper selection must be entered into thoughtfully to obtain the best results possible from the time and money expended.

To ensure the proper selection of consultants, each agency making requests should follow the procedures set up by the Office of Administration. The following principles should be observed at all times:

1. If requested, consulting services must be advantageous to the Commonwealth.
2. Services of independent consultants are to be used only when qualified personnel from the Office of Administration or other executive agencies are not available.
3. When requesting consulting services, a definition must be made of the problem involved.
4. Independent consultant contracts are to be used only for the accomplishment of a specific mission, and not as a substitute for per diem employment.
5. Independent consulting services may be obtained only by contract.
6. Competitive proposals are required whenever feasible.
7. Consultants are to be used only when qualified agency personnel in sufficient numbers are to be assigned to participate in the project.
8. The Office of Administration is to exercise general surveillance over the selection and performance of private consultants.

The Secretary of Administration is directed to issue procedures to be followed by agencies requesting management consultant services in accordance with these principles.

COMMONWEALTH OF PENNSYLVANIA  
OFFICE OF ADMINISTRATION  
GOVERNOR'S OFFICE

ADMINISTRATIVE DIRECTIVE NO. 5

SUBJECT: Procedures to Use When Requesting  
Management Consultant Services

March 6, 1967

TO: Heads of all Administrative Departments,  
Independent Administrative Boards and  
Commissions, and other State Agencies  
Under the Governor's Jurisdiction

FROM: A. F. Sampson  
Secretary of Administration  
and Budget Secretary

In reference to Executive Directive No. 10 I should like to assure you of the cooperation of the Office of Administration when you are in need of management consulting services. Studies made by management consultants are to be those which involve systems, procedures, organizational concepts, and similar administrative processes. Consultants used to evaluate the effectiveness of programs such as educational achievements and parole effectiveness are exempt from this procedure.

To ensure the proper selection of consultants, the following procedures are to be used by agencies requesting services:

1. Define as clearly as possible the problem to be solved and state the purpose and scope of the study. The complete, final definition of the problem may be achieved only after the consultant has gathered and studied the facts necessary to isolate the real problem and its underlying causes. However, management should have thought through its situation with sufficient thoroughness to arrive at its own definition of the problem including estimates of the potential values to be achieved by solving it and the desirability of tackling the job at all.
2. Submit a request for consultant services to the Secretary of Administration for approval.

The Secretary of Administration or his representative will take the following action after a study has been approved:

1. Assist the departments or agencies to the greatest extent possible to define and document the objectives to be achieved.
2. Decide whether the consulting service should be performed by Office of Administration personnel and/or by independent consultants.
3. Assign personnel from the Office of Administration to perform the service if it is considered desirable to use their services.

4. Approve job specifications to be distributed to independent consultants before they are distributed.
5. Approve the list of independent consultants to be asked to submit proposals. Except where it is clearly not feasible to do so, proposals should be solicited from more than one consultant.
6. Assist the agency concerned in the evaluation of proposals submitted by independent consultants in reply to the requests for proposals.
7. Assist the requesting agencies in all phases required to obtain services from independent consultants.
8. Approve or disapprove an agency's recommendation for a particular independent consultant.
9. Monitor the conduct of the study.
10. Participate in the study if feasible.
11. Evaluate the work of the independent consultants when engaged.
12. Follow-up on the implementation of the approved recommendations made by the independent consultants or by the Office of Administration personnel.

When approval is granted to employ the services of an independent consultant, the following functions are to be performed by the agency:

1. Prepare specifications, with assistance from the Office of Administration, to provide data for the independent consultant to use in preparing a proposal.
2. Request approved qualified consultants to submit proposals for the study on the basis of the specifications.
3. Evaluate the proposals.
4. Recommend to the Secretary of Administration the independent consultant considered best suited to perform the services required.
5. Submit the request for funds to cover the fees of the selected independent consultant to the Secretary of Administration.

If the decision is made to use the services of Office of Administration personnel, the agency should immediately consult with such personnel to:

1. Determine the scope of the project.
2. Prepare a time schedule for the project.
3. Determine the number and the sources of personnel required to carry out the project.

Whenever an agency utilizes the services of consultants, it shall assign a sufficient number of qualified personnel to partake in the study to assure maximum benefits are obtained from the study and to assist in the implementation of the recommendations after the consultants have left the scene.

COMMONWEALTH OF PENNSYLVANIA

ADMINISTRATIVE DIRECTIVE NO. 47

January 20, 1969

SUBJECT: Contracting for Consulting Services

TO: Heads of all Administrative Departments,  
Independent Administrative Boards and  
Commissions, and other State Agencies  
under the Governor's Jurisdiction

FROM: A. F. Sampson  
Secretary of Administration  
and Budget Secretary

This Directive describes the procedures to be used in securing consulting 1967, entitled, "Procedures to Use When Requesting Consultant Services."

This Directive supersedes Administrative Directive No. 5, issued March 6, services in the areas of management systems, procedures, organization, electronic data processing, and similar processes. Agencies requesting consulting services are responsible for preparing a complete and thorough definition of the problem to be solved including a statement of the purpose and scope of the proposed study and for submitting this information to the Office of Administration for review.

The Bureau of Systems Analysis in the OA will take the following action on receipt of the problem definition and supporting data:

1. Determine whether the services requested can be performed by Office of Administration personnel or other Commonwealth employees.
2. Assign such personnel to perform the services if it is considered desirable to use their services.
3. If it is desirable to use independent consultants, formulate, in conjunction with the requesting agency, study specifications to be used in securing proposals.
4. Assist the requesting agency in locating qualified consultants who will be asked to submit proposals. Except where it is clearly not feasible to do so, proposals should be solicited from more than one consultant. An agency must fully justify the selection of a consultant on a "sole" source basis by submitting information explaining the unique capabilities of the consultant which indicate that a sole source award is appropriate.

5. Assist the agency concerned in the evaluation of proposals submitted by independent consultants in reply to the specifications.
6. Attend periodic progress meetings during the course of the study to evaluate the work of the consultants.
7. Follow up on the implementation of the approved recommendations made as a result of the study.

The following functions are to be performed by the agency when the services of an independent consultant have been determined to be necessary:

1. Request consultants selected in conjunction with the Bureau of Systems Analysis to submit proposals for the study on the basis of the specifications.
2. Form an evaluation committee and establish criteria to evaluate the proposals with assistance from the Bureau of Systems Analysis.
3. Select a consultant and submit the contract between the successful vendor and the agency to the OA for approval.
4. Assign a sufficient number of agency employees who understand the system to participate in the study to assure that maximum benefits are obtained from the study and to assist in the implementation of the recommendations after the consultants have left the scene.
5. Establish monthly progress report meetings with the consultant.
6. Furnish the Bureau of Systems Analysis with a copy of the final report of all consultant studies.

If the decision is made to use the services of Office of Administration personnel, the agency should immediately consult with such personnel to:

1. Determine the scope of the project.
2. Prepare a time schedule for the project.
3. Determine the number and the sources of personnel required to carry out the project.

In order to expedite the processing of paperwork for consulting services, please forward the requests to: Director, Bureau of Systems Analysis, Office of Administration, Room 520, Finance Building.

The Bureau of Management Information Systems will issue more detailed instructions relative to consulting contracts with an end product that is a prerequisite for or an integral part of automated information systems.















